PROPOSED LEGISLATIVE REVISIONS TO THE DAIRY PRICE SUPPORT PROGRAM

HEARINGS

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION, MARKETING, AND STABILIZATION OF PRICES

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 2533

A BILL TO IMPROVE THE MILK PRICE SUPPORT PROGRAM AND PROVIDE ADDITIONAL AUTHORITY FOR THE DISPOSITION OF DAIRY PRODUCTS

AND

S. 2587

A BILL TO ASSURE THE PRODUCTION OF AN ADEQUATE SUPPLY OF PURE AND WHOLESOME MILK TO MEET THE NEEDS OF MARKETS OF THE UNITED STATES, TO ASSURE A REASONABLE LEVEL OF RETURNS TO DAIRY FARMERS AND STABLE PRICES FOR MILK AND DAIRY PRODUCTS FOR CONSUMERS, TO MAINTAIN PRODUCTION CAPACITY SUFFICIENT TO MEET ANTICIPATED FUTURE NEEDS, AND FOR OTHER PURPOSES

MAY 27 AND JUNE 24, 1982

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE
97-420 O WASHINGTON : 1982

S161-28

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PROPOSED LEGISLATIVE REVISIONS TO THE DAIRY PRICE SUPPORT PROGRAM

THURSDAY, MAY 27, 1982

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C.

The subcommittee met, at 9:37 a.m., in room 324, Russell Senate Office Building, Hon. Thad Cochran (chairman of the subcommittee) presiding.

Present: Senators Cochran, Andrews, Boschwitz, Hawkins, Zorinsky, and Leahy.

Also present: Senators Dole and Hayakawa.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. The committee will please come to order.

I would like to welcome everyone to the first of 2 days of hearings on how best to structure a dairy program that protects the interests of both producers and consumers without unduly straining the Federal budget.

Today we will look at several proposals for changing the dairy price support program. These proposals have been advanced by some Members of Congress, the administration, and the dairy industry to reduce the cost of the program.

The reason for having a dairy price support program is to help assure adequate and stable supplies of milk and dairy products to consumers at reasonable prices. That purpose has been served, but it has also caused the Government to purchase and remove from the market very large quantities of surplus dairy production.

The program has stimulated so much production over the past 3 years that it cannot all be absorbed in the marketplace.

Three years ago, net Government expenditures for the dairy price support program amounted to $46 million. But the cost jumped to $1 billion in 1980, and it doubled to nearly $2 billion in 1981. Despite legislative changes that were made in the farm bill last year to help reduce the surplus of milk, Government purchases of dairy products are continuing at high levels. It is estimated that the program will cost another $2 billion this fiscal year.

It is clear that adjustments in the program are needed. Everyone has an interest, however, in preserving the fundamental goal of a stable milk supply and reasonable prices. I think we can achieve this and, at the same time, maintain the needed incentives for dairy farmers.

Dairy farming requires significant investments of capital in land, equipment, and a lot of hard work by the farm families involved. It is not an enterprise that is easy in any sense of the word. The cows have to be milked twice a day, weekdays and weekends, workdays and holidays, whether you are tired or sick.

The American dairy farmers and the American consumer both deserve the stability of a sound dairy program.

When you stop and think about it, the dairy industry and its products directly and indirectly affect the daily lives of practically every American household. Through the efforts of the dairy farmer, we have a bountiful supply of milk, cheese, butter, and other dairy products.

The continued ability of our dairy farmers to meet our consumer demands while making a decent return on their work and investment is truly a matter of national interest.

We have several members of the committee here this morning, and I would recognize any of them who would care to make an opening statement at this time.

Senator Leahy?

Senator LEAHY. Mr. Chairman, I would ask that my whole statement be made a part of the record.[1]

Senator COCHRAN. Without objection, it will be included in its entirety.

STATEMENT OF HON. PATRICK LEAHY, A U.S. SENATOR FROM VERMONT

Senator LEAHY. There are a couple of things.

First, I want to congratulate the distinguished chairman of this subcommittee, my good friend from Mississippi, for holding these hearings. I think they are extremely important, and I do not know whether I should extend congratulations or condolences when you go into this issue, but I think it is one of the most important things that we could be discussing in our committee.

I do agree that the ever-growing dairy surplus is costing the Federal Government too much money to purchase, to store, and to maintain. I think it is an obligation of both the taxpayers and the dairy farmers of this country to work out a compromise in reducing the size and cost of the dairy surplus. But I do not want to see political football being played with the very livelihood of the dairy farmers.

I have a real parochial concern for our dairy farmers.

Last year, massive cuts in dairy price supports were forced through the Congress and the concept of parity was eliminated along with the semiannual adjustment. Dairy has been targeted again. The Secretary of Agriculture, using tough language, promised major changes in the dairy program. The word went out that the dairy support levels would be cut by at least $1 per hundredweight. Then, of course, that was changed, the administration changed its mind and said we will wait until January 1, 1983, coincidentally right after the election.

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[1] See p. 131 for the prepared statement of Senator Leahy.

I am far more concerned that we get a good dairy program, one that will last rather than whether it fits OMB or anyone else. I suspect that is the feeling on both sides of the aisle in this committee.

But I would just point out one fact and put the rest of my statement in the record.

If the Secretary cut $1 off the support price, just to use again a parochial aspect, it would mean a loss of more than $26 million to Vermont dairy farmers. Since each dollar of dairy receipts represents about $3 for the Vermont economy, a cut of this magnitude will mean a loss of more than $79 million to the State. In large States that may not seem like a very great amount of money. In a State with one of the lowest per capita incomes in the country, it is a very significant factor.

But I also imagine that those same numbers can be multiplied appropriately for Minnesota and Wisconsin and a lot of other States.

So again I thank you, Mr. Chairman, for holding these hearings.

Senator COCHRAN. Thank you, Senator. I appreciate your being here and the contribution you are making to try to come up with a sensible response to this problem that we face.

Senator Hayakawa?

STATEMENT OF HON. S. I. HAYAKAWA, A U.S. SENATOR FROM CALIFORNIA

Senator HAYAKAWA. Thank you, Mr. Chairman.

California is the second largest dairy producing State in the Nation, and dairy is the second largest agricultural sector in my State. In fact, by value, dairy farmers are responsible for 11.2 percent of the State's total agricultural production.

But it is not the size of my State's dairy industry which makes this program important to me. Rather, it is the fact that this program has become an insult to the public, a welfare program for the dairy farmer, and an embarrassment to the country. It is a program which now reeks of the spend, spend, and tax, tax, policies so effectively promulgated by the Democratic controlled Congresses of the past two decades.

In order to maintain the legislated price for dairy products, the Government has had to purchase ridiculous amounts of surplus. We, as taxpayers, are the proud owners of enough surplus dairy products to fill a train stretching from Sacramento almost all the way to Bakersfield. Specifically, the Federal Government's holdings break down to nearly 400 million pounds of butter, 700 million pounds of cheese, and over 1 billion pounds of nonfat dry milk. If we were to distribute all of this surplus, there would be nearly 2 pounds of butter, 3 pounds of cheese, and over 4 pounds of milk for every man, woman, and child in this country.

As if the existence of such a large surplus is not embarrassing enough, the cost of amassing the product has been obscene. In 1979, this program cost the Government $46 million for the entire fiscal year. Today, it costs the Government nearly the same amount every week. This program required nearly $2 billion last year, and will probably cost as much, if not more, this year. Unless things get turned around, another $6 billion of the taxpayers' money could be spent between now and 1985 on this program.

In the midst of an economic recession, it is simply unjustifiable to use tax dollars to maintain and encourage production of dairy products artificially at a time when supply far exceeds demand. Taxpayers cannot and should not be asked to pay such large sums for Government dairy product purchases and, at the same time, pay higher prices for dairy products in the supermarket.

The current situation cannot be blamed on the individual dairy farmer. It is the result of the unjustifiably high dairy lobby-induced support levels contained in the 1977 farm bill. The dairy farmer did exactly what any other astute businessman would have done. He reacted to the strong Government set price by attempting to increase production. Because our dairy producers are such efficient, dedicated agriculturalists, they succeeded overwhelmingly.

For an example of how the production incentives of the 1977 farm bill worked, we can look at the dairy industry in California. California dairy producers started a major expansion in 1979. Between 1978 and 1982, milk production increased 20 percent. This increase was largely the result of the 9-percent increase in cow numbers over the same period. The State has always had above average production per cow, but during the last 3 years, output per cow increased 10 percent.

Our goal in setting the dairy price support levels in the 1981 farm bill was to stimulate a cutback in production. But, as production continues to increase, it has become apparent that we have failed to achieve our aims. The Nation's dairy farmers simply have not cut back on their herds. Between October 1 of last year and February 19, Government purchases of milk rose 45 percent, cheese 17 percent, and butter 6 percent. In January 1981, the Government purchased 51.5 million pounds of butter, 32.2 million pounds of cheese, and 55.4 million pounds of nonfat dry milk. However, this past January, we had to purchase greater amounts, 55.1 million pounds of butter, 33.6 million pounds of cheese, and 71.1 million pounds of nonfat dry milk.

It's obvious, then, that as responsible Senators, we must buck the high pressure tactics and temptations of the dairy lobby and pass legislation which will allow dairy production to fall more in line with demand. I believe that the administration has proposed legislation which would responsibly achieve this goal by addressing the entire dairy problem.

The proposal would specifically give the Secretary of Agriculture discretionary authority to set the milk price support level. We have every reason to believe that the Secretary will use this authority to both prevent future large Government dairy product acquisitions and assure the integrity of the program. The administration plans to continue the present milk support price at $13.10 per hundredweight past October 1, 1982. This is 15 cents below the level that would be in effect under present legislation. This holding action will give dairy producers an additional 3 months to begin moving production back in line with consumption. If there is no clear evidence of a production cutback, I understand that the Secretary intends to lower the support price to not less than $12 on January 1, 1983. Once supply and demand are back in balance, the Secretary can continue to adjust the level accordingly. This is tough medicine. But tough problems demand tough solutions.

In addition, the administration's proposal will broaden the authorities for utilization of the surplus dairy products now on hand. By using these new authorities in combination with existing powers, the Department plans to expand butter and cheese distribution domestically, increase distribution of nonfat dry milk in our foreign food aid programs and expand commercial export sales. In a world with so much hunger, it's a crime and a travesty to leave so much wholesome food to spoil in expensive storage.

No one, however, has a greater stake in this legislation than the dairy industry. Unless adjustments are made to the support price, the burdens of this program will grow until angry taxpayers destroy the entire dairy price support system. This would be a tragedy for all involved. Properly adjusted, the dairy program assures the American public of plentiful supplies of dairy products at fair prices.

America's farmers, being characteristically independent, want as free a market as possible. They want to work and earn their money with as little Government interference as possible. They set an example we could all do well to follow. I firmly believe that our Nation's dairy farmers, above all, do not want handouts from the U.S. Government. It was the dairy lobby-induced Democratic Congress of 1977 which gave them the incentive to overproduce, and it's our job now to take this artificial incentive away. Only in this way can we turn the dairy trade back toward the free market, insure the integrity of the dairy program, and put a halt to this insane waste of the taxpayer's money.

That is the program which I hope to be able to support.

Senator **Cochran**. Thank you for your statement, Senator.

Senator Boschwitz?

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator **Boschwitz**. Mr. Chairman, I agree with my colleague from California. He cites that the figures, the removal by the CCC, have indeed been enormous. I know that many cheese and butter producers in Minnesota have been sending the majority of their production to the CCC, and something indeed has to be done in the area of milk production. From 1949 until quite recently, the program provided stable prices and abundant supply of milk and milk products which were delivered to the consumer at low prices. In fact, the average net expenditure for the dairy program for the first 30 years was less than $300 million a year. But, most recently, as you indicated in your opening statement, Mr. Chairman, it has zoomed up. As recently as 2 years ago the amount spent on the dairy program was quite small. In fiscal year 1980, it was $250 million, then suddenly it zoomed upward, and this year, Mr. Chairman, as you noted, it will be quite a bit over $2 billion.

The dairy farmers, it must be understood, dislike budget deficits as much as any other small businessman. High interest rates, caused by those deficits squeeze dairymen because of the capital intensive nature of the business, squeeze them perhaps more than other people. They know the only way to bring down interest rates is to reduce the deficit, and they are ready to do their part.

Mr. Chairman, I am introducing the Dairy Stabilization Act of 1982 today, and this bill will be, I think, a constructive step forward to reduce the cost of the dairy program. We estimate the reduction of the cost in fiscal 1983 will be $1.3 billion, and that would make the dairy program much more affordable and a much more rational program than it is today.

I realize also that the Dairy Stabilization Act will go through some revision probably both as we negotiate it out of committee and on the Senate floor. But this bill will provide a price of $13.10 for at least 90 percent of the production and a much lower price for the remaining 10-percent surplus production. So that producers have an incentive to cut production, farmers who have decreased production from the previous year will not be penalized with a lower price. And for those producers who do not cut back production, a much lower price will be paid on the final 10 percent that they produce. This way there will be a great incentive to reduce production and reduce it quickly.

Mr. Chairman, I am a practical guy. I was a businessman before I got here, and I think the program with these kinds of incentives, or lack of incentives, will certainly work. While I have a great ideological purity about the free market system, I do not think the free market system is going to work quite the way the Secretary of Agriculture hopes it will work.

If we reduce the price to $12 a hundredweight, as the Secretary is suggesting, or at least as I hear from the Department, we are just going to have continuing overproduction. And the result will be that CCC removal will continue, the price of the dairy program will continue to be very high, and there will be enormous pressure to abandon the supports altogether.

When you come from a State like Vermont, or come from a State like Minnesota or Wisconsin, as I see my colleagues here, where the average herd size is small—in our State it is 40 cows—these are the people who are going to be hurt. Our rural areas are going to be hurt the most. There is no question, as my friend from California pointed out, that dairy production has been up and that dairy producers are good businessmen. But the price support is not the only cause for overproduction. Part of the reason of overproduction is the very low price of feed, and it has been more productive and profitable to put corn into the cow than sell the corn on the open marketplace. I think that the plan that I will introduce today, Mr. Chairman, will have the effect of bringing supply and demand into better balance. Hopefully, a part of the plan is also going to be an advertising scheme that is going to produce a greater consumption of milk. As we look at the production, 1950 to date, 30 years of production, it has not gone up very much. I think it was approximately 120 billion pounds on a fluid basis in 1950, and now it is 135.

The population has increased very markedly but the consumption per capita has gone down. We can do something about that, and I think that that has to be part of the plan, too.

I have spent my whole life, Mr. Chairman, selling stuff, and I think, given the opportunity, milk could be sold as well. Consumption could go up and that would add to a large part in balancing out our affairs and reducing the necessity for the expenditure of the program.

Thank you, Mr. Chairman.

Senator **Cochran**. Thank you, Senator.

Senator Andrews, do you have a statement you would like to make?

STATEMENT OF HON. MARK ANDREWS, A U.S. SENATOR FROM NORTH DAKOTA

Senator **Andrews**. I would like to comment on behalf of our colleague, Senator Boschwitz's statement. I am a cosponsor of the bill.

I think it is necessary, and there is only one thing that I would add to his statement. He was talking about how important his approach is to the smaller dairy farmer. We have those smaller dairy farmers, too. But I do not want to miss the point that it is extremely important not just for the dairy farmers, but to the consumers of this country. The great thing the consumers have going for them is a dependable supply of good agricultural products at a reasonable price. And when we are talking about dairy products, I think it ought to be pointed out again and again and again, that the dairy product price envisioned in the Boschwitz bill sets a price that is lower than the dairy product price that people pay in the Western European nations or in Japan or most anywhere else in the world.

What we are talking about is fair prices so that we could stabilize production, so that we could protect our consumers from a lack of production which would drive prices up and really cause havoc.

So this bill, the Boschwitz bill, or in North Dakota the Andrews-Boschwitz bill, however you look at it, is extremely important for the consumers as well as the dairy farmers. And I salute my friend for taking the leadership in introducing it. And I also think that the dairy farmers of this Nation are very forward looking when they say that they are willing to find a market for the excess that is produced. Let them find these new markets, but let them have the baseline production that they are interested in at the price established. And this price is not really anywhere near 100 percent of parity, but considerably below that.

Senator **Boschwitz**. May I interrupt?

What are we going to call the bill along the border?

Senator **Andrews**. Well, along the border of Minnesota, we can call it the Boschwitz-Andrews bill. I guess you are coming up for election a couple of years before I am.

But when we get 100 miles into North Dakota, it has to be known as the Andrews-Boschwitz bill.

Senator **Boschwitz**. Mr. Chairman, the Senator from North Dakota makes an excellent point.

The levels of support have never gone below 75 percent of parity. They are below 70 percent of parity now and they will go down further under all these proposals.

Senator **Cochran**. Senator Dole, do you care to make any opening comments or statements?

Senator **Dole**. You have a number of outstanding witnesses. I have to go over to a Finance hearing and increase the debt ceiling because we are spending too much money.

I would suggest that the industry now realizes that we have to stop the growth of this program. Maybe we ought to start looking at the cost rather than the percentage of parity. I want to work with this committee and we are working on a compromise proposal which may or may not have any support. So far it has not lost because it has not been introduced.

We have asked outstanding witnesses here who have come a long way to testify. I want to hear what they have to say.

Senator **Cochran**. Thank you, Senator.

Our first panel this morning that we will hear from includes Senators Bill Proxmire of Wisconsin, Bob Kasten of Wisconsin, Congressman Jim Jeffords of Vermont and Congressman Steve Gunderson of Wisconsin.

We want to welcome you and ask you, Senator, please proceed.

STATEMENT OF HON. WILLIAM PROXMIRE, A U.S. SENATOR FROM WISCONSIN

Senator **Proxmire**. Mr. Chairman, I think that the subcommittee members have stated the case properly. We simply have to cut down on the costs of this program. I would agree with that wholeheartedly. I think Senator Hayakawa put it squarely. He has one approach and Senator Boschwitz and others have a different approach.

The issue really is whether or not you are going to enable dairy farmers to cut their production. Why shouldn't they? Every other businessman does. We know if you overproduce razor blades or toothbrushes, you cannot throw them on the market and take whatever the price is. You limit your production to what you can sell. That is what the dairy farmers want to do; that is the issue, whether you are going to let the dairy farmers do this or whether you are going to have a situation where the Secretary of Agriculture is going to be allowed for the first time to arbitrarily reduce the price support and reduce it in a way that I think would be very cruel.

Let me just say that family dairy farmers in America stand today at the crossroads of survival. Why? Because the U.S. Secretary of Agriculture, John Block, has come up with a proposal which, if accepted by the Congress, would spell the beginning of the end for the family dairy farm in this country, in my judgment.

Secretary Block has asked that the Congress give him the authority to cut dairy price supports at his own discretion—down to $12 a hundredweight, $10, or whatever level he might choose. There would be no limits on the Secretary's power to cut the dairy price support level.

Mr. Chairman, there is no way that the Congress should allow this to happen. Starting with this subcommittee, we must give the Agriculture Secretary a message, loud and clear: The Congress flatly rejects your ill-conceived and dangerous proposal.

The Block plan is not only wrong because it would savagely depress dairy farm income. And it certainly would do that.

But it is also wrong because it would not work. The administration, unfortunately, persuaded the Congress to pass the 1981 farm bill. This has led to a drastic cut in the parity level for dairy price supports and much worse to follow in later years.

Mr. Chairman, what happened as a result? Was the dairy surplus reduced? No, indeed. As Senator Hayakawa so well documented it, the surplus has gone through the roof.

With even lower prices—and that is what we would have under the Block proposal—the dairy farmer would be desperate. He would have to produce more in order to get what he could to cover his costs.

The family dairy farmer confronts an extremely difficult and uncertain future because of the cruel, devastating squeeze between the costs facing him and the prices he receives for what he produces. Congressional approval of Secretary Block's plan would only make matters worse.

The supreme irony in this situation is that family dairy farmers have never done a better, more efficient, more productive job. Our family dairy farmers are, in fact, more efficient and productive than dairy farmers have ever been anywhere or any time in history. Yet that very productivity has given us our current dairy surplus problem.

Last year, the Federal Government bought about 10 percent of our national milk production. And what did this lead to? Despite my strong objections—and those of other Members of Congress—the Congress changed the rules of the game. For the first time since 1949, the Federal Government backed away from 75 percent of parity dairy price supports. In passing the 1981 farm bill, the Congress approved dairy provisions that could cut dairy price supports to less than 60 percent of parity by 1985.

And now things are going from bad to worse. With the introduction of legislation embodying Secretary Block's proposal, dairy farmers face the grim prospect that the Federal Government may not even live up to the 1981 farm bill. Despite the fact that dairy price supports have been frozen at the $13.10 per hundredweight level since October 1980, Secretary Block wants the unbridled authority to drop them to any level that he, in his sole discretion, decides is best. Again, the Congress must not allow this to happen.

What should the Congress do? Listen to dairy farmers themselves. Our Nation's dairy farmers have been working hard to develop constructive and effective proposals to cut production while still insuring equity for producers.

And they deserve special praise for these efforts. Why? Because the cost-price squeeze now facing dairy farmers gives them an incentive to produce more just to survive. But, despite this, dairy farmers across the country have put together plans that provide the foundation for a fair and equitable system of mutual sacrifice to hold down production.

Dairy farmers are also offering suggestions to promote greater consumption of dairy products. Dairy products have been losing out to other beverages and foods. Why? Just look at the advertising budgets or count the TV commercials.

So, Mr. Chairman, I urge the subcommittee to look carefully at the proposals that are supported by dairy farmers themselves and the groups that represent them. Our dairy farmers are ready to make the sacrifices that are needed to curb production while not destroying the family dairy farm in the process.

The family dairy farm is a great American institution. It is productive, efficient, and worth fighting for. Our dairy farmers are providing the leadership we need to solve the dairy surplus problem and also save the family dairy farm. Let us follow their lead. And let us also reject proposals—like that of Secretary Block—which would lead to the destruction of the family dairy farm.

Senator COCHRAN. Thank you, Senator Proxmire.

Senator Kasten?

STATEMENT OF HON. ROBERT W. KASTEN, A U.S. SENATOR FROM WISCONSIN

Senator KASTEN. Thank you for having these hearings, and it is clear from the crowd in the room that there is a great interest across the country, not only in my State of Wisconsin, but across the country on this most critical issue.

I think it is fair to say that no single agricultural issue has generated more concern and rhetoric than the dairy price support portion of the farm bill. The Nation's dairy farmers have been justifiably concerned over the on-again, off-again approach by Government to deal with an issue so complex, yet so important to milk producers and consumers alike.

The imbalance between the annual production of milk to the tune of 132 billion pounds as compared to the national consumption of milk and milk products of roughly 120 billion pounds has been well documented. The price support program has served dairy farmers well by providing a favorable economic climate for milk production. The natural response has been that many productive resources have been attracted to milk production without the corresponding increase in consumption. Now we face the wrenching experience of somehow rechanneling these resources to bring the productive capacity of farmers in line with product utilization by consumers.

Because of the seriousness of the dilemma we face in dealing with an issue so vital to the Nation's dairy farmers, I was encouraged to see the USDA's sponsorship, though somewhat late in the game, of a dairy economics symposium in Kansas City in March of this year.

The response, even on very short notice, was phenomenal. Certainly, I thought any action that USDA initiates will be based on the expert testimony of dairy farmers and dairy readers from every corner of the Nation at that symposium in Kansas City.

But no, such was not the case. The Secretary, contrary to the intent expressed when the symposium was called, ignored the advice and counsel presented by the delegates. The latest proposal by the Secretary has again placed dairy farmers in an untenable situation by allowing a potential political whim an even greater role in any decision to adjust support prices. It would be a tragic mistake for the Congress to provide such powerful authority to any Secretary of Agriculture.

It is apparent to me that the leadership in USDA is insensitive to the dairy farmer's dilemma and has once again prescribed a remedy that will fail to reduce continuing overproduction.

The Senator from California hit the nail right on the head when he said that the goal was to achieve a cutback. But the result has been precisely the opposite because the program has been wrong. The problem is that we have a number of people who have fixed costs. They are paying for their lands, they are paying for their tractors, they are paying for their silos, they are locked in. Every month they see the bills coming in. Their only way out, as we see the price drop, is simply to produce more in order to cover their fixed costs. This program has not worked, it is not going to work, and if we go further down in reducing the support levels, all we are going to do is to encourage more overproduction. The remedy that we are talking about now is not going to reduce continuing overproduction any more than the remedies that we have talked about before. There was a headline in one of Wisconsin's weeklies. It read, "Dairy Industry Distraught Over Block Proposal." This headline reflects the tenor and the feeling on the part of State and national dairy leadership. What is the answer? Well, clearly, there is no simple one to address the current dairy situation.

First of all, I believe that several basic criteria must be considered.

No. 1, it would be a grave mistake to completely dismantle the current program that has generally served producers and consumers well—providing stability and giving assurance for an abundance of dairy food. Drastic surgery of the existing support program would create chaos and a severe disruption in an industry so basic and so important to our economy.

Point No. 2, any modification or adjustments must be designed to maintain stability—providing for fair prices to hard-pressed producers plagued with high operating costs and burdensome interest rates.

Point No. 3, the program should encourage young farmers who are entering or contemplating beginning a dairy enterprise. Also, the program should provide a chance for "survival" for the lower net worth producers.

Point No. 4, a program, to be effective, must be designed to provide incentives to producers that will lead to realistic production levels in light of current demands while, at the same time, assuring a satisfactory, fair, acceptable net income for dairy producers.

Point No. 5, the program must reduce Government costs within budget guidelines.

Point No. 6, the program must provide for flexibility in making necessary adjustments as conditions change.

Point No. 7, the program should not result in an overreduction of the milk supply.

Point No. 8, adequate credit should be available to producers, therefore, the program should be one that is acceptable to agricultural credit institutions.

Point No. 9, the program should minimize Government involvement through burdensome regulation or control and high costs of administration.

Point No. 10, and last, one cannot overestimate the importance of a realistic, aggressive marketing and promotion effort on behalf of milk and dairy products by the producers themselves along with the Government. And in that regard, I would stress not only domestic marketing and domestic efforts in promotion, but also international marketing, and international sales.

In recent months, many proposals and counterproposals have surfaced as a means of addressing the dairy issue.

In my opinion, the most viable solution is a self-help plan that will assure consumers of adequate milk supplies at reasonable prices while permitting farmers to receive the prices necessary to maintain needed milk production over the long run. Such a program should be designed to preserve and protect the existing family farm structure. Further, such a program should provide the mechanism for milk supply controls and incentives to discourage dairy herd expansion and encourage cow culling in periods of surplus milk production. That is the goal, that is the stated goal of the Department of Agriculture as well, but the programs that they are coming out with now go precisely in the opposite direction.

In my opinion, the Milk Marketing Improvement Act most nearly incorporates those elements needed to bring about and maintain stability for dairy farmers.

Several modifications which I believe would strengthen the proposal would be to change the criteria for establishing the individual dairy farmer's base to his production for the year prior to April 1 rather than a moving average for the most recent 3 years. Also, I believe that a trigger mechanism should be provided to modify any established bases when surpluses are under control.

Mr. Chairman, I see a growing consensus, and I was pleased that the Senator from Wisconsin stated that we have to take the view of the dairy farmers, that is why I was so disappointed that we had a dairy symposium in Kansas City and the Department acts as if it never existed. But I do see a growing consensus on the part of dairy farmers and farm organizations, supporting a self-help, supply management program. I believe that such an approach is a logical means of moving away from a program which relies completely on governmental support to a more cooperative era between government and dairy producers who want to exercise their role in an all-out self-help effort

I believe that we can be successful in getting a handle on this problem and dealing with the problems and protecting the farms in Wisconsin and other States, and I look forward to working with you and other members of this committee as we wrestle with these most difficult problems.

Senator **Cochran**. Thank you very much, Senator Kasten, for the contribution that you have been making all along to our legislative effort in connection with the dairy support program.

Congressman Jeffords?

STATEMENT OF HON. JAMES M. JEFFORDS, REPRESENTATIVE IN CONGRESS FROM VERMONT

Mr. **Jeffords**. Thank you, Mr. Chairman.[1]

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[1] See p. 132 for the prepared statement of Mr. Jeffords.

Indeed, it is good to be here and talk to you about the the subject of dairying.

I would first like to put things in perspective. All the focus is on the dairy problem, but as Keister Adams, a retired Assistant Director of CCC, pointed out sometime ago, dairy is only a small part of the problem, although it gets a lot of the attention.

As of February, there was $15 billion of loans and acquisitions in CCC of which dairy is only $2.6 billion, or only 18 percent of the cost. We must keep things in perspective.

Second, There has been a serious increase in production as farmers struggle to stay alive, each hoping that they will survive and somebody else will fail so that the demand and supply factors will come in to balance. So, in the short run, we are bound to have increases in production. We must remember, however, that we are in a situation where if we are not careful, we can have a serious compact on both the farm and rural economy.

Another thing to point out is that it is essential that we look at regions of the country, not just the total problem. The problem in the different regions are very, very different. We have a very unusual situation right now, and it is primarily because of low grain prices—most of the increases in production are in those areas where the grain is very cheap and available.

If you look at the production analysis, you can see what the impact has been, such as the Northeast and the Southeast.

In those two areas, we have 40 percent of the production but we only have 7 percent of the purchases for cheese, 15 percent for nonfat dry milk, and 18 percent for butter. So whereas we are not much of the problem, we could be the biggest part of the solution. A reason for this part is that in those feed producing areas, it is cheaper to feed the grain to a cow and sell it to the Government than it is to sell your grain. If that grain situation turns around, we could have a dramatic shift in the situation. That must be carefully kept in consideration.

I also believe there is a need, from a national security perspective, to have regional food production. If we not careful we are going to destroy the dairy industries in the Southeast and Northeast. For instance, in the Northeast I have figures which indicate that 50 percent of the dairy farmers are in a financial risk situation, even with current price. These figures do not come out of my head or out of the depressed dairymen. These come from the farm credit banks of Springfield, Mass. I could run through all of the depressing information but I think I will leave that for the committee to do.

OK, what do we do about it—the serious problem of overproduction without destroying the dairy industy?

First, it would be the wrong signal, to have a 15-cent price cut adjustment in October. We should not send out price expectations to the farmers which are not warranted.

Second, and as the administration has demonstrated, there is a lot that we can do in the promotion areas and export areas, and we should do that.

Finally, I would like to review some of the proposals very briefly because I know others will go into them in greater detail. But in the order of protection of regional dairies, I would suggest that the best proposals are those that control production. The agricultural economists and dairy experts have stated that the only way to bring supply and demand into balance without destroying farm income is through temporary production controls.

The Federation's proposal with the payback in production would do a credible job, but it does not penalize the individual farmer who significantly overproduces. I have a chart here which shows the impact on the average farm, and especially the small farm. I will leave it with the committee.

If temporary supply controls are not acceptable, I would recommend that we do nothing other than foregoing the 15 cent adjustment. That will have again the least impact on the dairy situation. If you look at the facts, cull cow prices are going up, and there may be a turnaround in grain, there are indications for the first time that there may be a decrease in production. We must consider that.

Finally, if a price cut is inevitable, I would suggest the Barber plan which is coming from the State of New York. The plan would, in essence, freeze the class 1 prices and thus which would help those areas are not the greatest part of the surplus problem.

I thank the chairman for this opportunity, and I will be happy, as all of us on our side would, to work with your committee to come up with a reasonable dairy program.

Senator COCHRAN. Thank you very much, Congressman. I appreciate your statement and your observations. They will be very helpful to us as we examine all the other proposals that are before the committee.

Congressman Gunderson?

STATEMENT OF HON. STEVE GUNDERSON, REPRESENTATIVE IN CONGRESS FROM THE THIRD DISTRICT OF WISCONSIN, ACCOMPANIED BY DR. ROBERT CROPP, UNIVERSITY OF WISCONSIN EXTENSION

Mr. GUNDERSON. I thank you, Mr. Chairman.

I appreciate the opportunity to be here.

I am going to ask unanimous consent that my complete statement and that of Dr. Cropp be made a part of the record, and I will briefly summarize what I would like to say.[1]

I do not think there is anyone in this room that does not realize that dairy industry today faces a serious overproduction problem, and we recognize the impact of that on our Government. Certainly we all want to increase consumption, both home and abroad. The bottom line is answering one very important question. Do we continue to decrease the support price for milk which results in a decrease in the number of farmers but an increase in total dairy production in this country, or do we rather decrease production?

I think our actions in the past have indicated that either temporary freezes or cuts in the dairy price support program do not result in the net effect of reduced production that we would desire. But rather lower production is going to result only when dairy farmers are rewarded for cutting back their production.

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[1] See p. 135 for the prepared statement of Mr. Gunderson, and p. 139 for the prepared statement of Mr. Cropp.

Last January, Dr. Robert Cropp of the University of Wisconsin Extension, who is seated next to me today, and I developed what we call the Milk Marketing Improvement Act that achieves this goal. I introduced this proposal on April 5, 1982, and a copy of H.R. 6076 and a summary of its contents is provided to all members of the committee.

Our bill is important in that it does two things. First, it rewards those farmers who cut back and, second, it also saves the Government a projected $1.3 billion in money in fiscal year 1983 alone in expenditures on the dairy support program. I think this point deserves a bit of brief elaboration.

We on the House side are well aware of the fact that many of budget proposals that are still receiving consideration in the House assume fiscal year 1983 savings in the dairy program of about $900 million. Legislation, as I have introduced, will achieve those budget savings in the dairy area. When compared with the other proposals which also can achieve that same goal, the present price support program, or the income received from the administration's proposal or the National Milk Producers proposal, it seems to me that my proposal will provide greater income to the producers. In fact, if a producer cuts back his marketing, he will have a greater adjusted gross income than a producer who increases his income.

There are two important questions. Do we provide incentive for pulling back? And, just as important, do we provide a disincentive for expansion? The proposal, such as Congressman Jeffords and I have offered, are really the only proposals under consideration today that provide the disincentive for expansion. I think that is important if we want to get the cost of the program under control.

Rather than go into details at this time, I would like to briefly defer to Dr. Cropp for that explanation. But before I conclude, I would like to thank you sincerely for the opportunity to be here today.

Senator COCHRAN. Thank you, Congressman. We appreciate your contribution to the hearing.

Dr. Cropp?

Dr. CROPP. I would also like to take the opportunity to present my ideas. I have a longer statement in the packet and I will summarize.

I think also, because of the economic importance of dairying, we talked about changes in the price support program, I think you have to look at the long- and short-run impact. The dairy price support program, as has been indicated, the history of it has been good in spite of a very stable dairy industry which has benefited the dairy farmers, the industry and the consumers. We have some problems with it.

I would look at the program before making some changes. It has been indicated already that the efficiency of the dairy farmer has been greater than any other areas of agriculture except for maybe poultry. Part of that has been due to the stability that we had there; that has been anti-inflationary, and we want to recognize that. Without question, the dairy industry does face a surplus which has been indicated that changes need to be made. We need to work on decreasing production as well as increase in consumption.

Again I say let us look at those changes and look at the short- and long-term impact. Various solutions have been suggested.

As I look at most of these solutions, it does involve a rather simple price cut, and the record is clear that a cut in milk prices paid to farmers will actually in the immediate short run increase production because it becomes survival time when the price goes down. The only logical decision of the dairy farmer when prices go down is to increase production to try to survive, try to beat those fixed costs and expenses. This is especially true for those farmers who carry a heavy debt load.

Now, in the long run, it will cut production but, unfortunately, it cuts production by cutting farmers, and the first farmers to go are many young farmers and the farmers who have low net worth, high debt, they cannot survive. In fact, if you put a pencil to it, this is where we get trouble with it, you must look at it from the standpoint of farm management and pencil it out, what will the farmer do when the price goes down? The young farmers will try to survive by increase in production, but they will be forced out by a dollar cut in hundredweight. The farmers realize there that they are applying better management techniques and some are more efficient farmers, and this is the type of farm structure that we want to preserve.

The proposal recognizes the adverse effect on this farm structure and on the economy as a whole. It does this by awarding those farmers that cut back and penalize those farmers who maintain production in time of surplus. Under the Gunderson proposal, the support price of milk is maintained at 70 percent of parity. A lot of people say, well, there you have an increase in price. If you look at that, however; this is why the Gunderson proposal will reward the farmers who cut production. My estimation right now is that 70 percent of parity on October 1 would be around $13.79 a hundredweight up from the current $13.10. Also this is a joint program between the Federal Government and the dairy farmers in that we asked the Federal Government to buy 3½ billion pounds of surplus milk, and the dairy farmers would buy the additional surplus through an assessment. It also employs the base concept. Each dairy farmer would have a base, and it is determined on historical production over the last 3 years. It is a moving average base. You drop a year or add a year.

This recognizes that genetically cows are going to produce more milk per year like 2 percent. We are getting better management. We do not want to discourage management in the dairy industry. That is not what has gotten us in trouble. Adding more cows to try to survive is what has caused the trouble.

Look at the farmers' efficiency. They have increased efficiency.

When you have a base program, we say that the bases are tied with production facilities. They are not really transferrable to avoid high transfer costs on bases. However, I do realize that a base on a farm does have some value.

A farmer that does not use a base for 2 years, that base is lost and it may be reassigned to other areas to beginning farmers, fathers and sons, the son joining a father's operation, something like this. There is also a National Dairy Board that works with the Secretary of Agriculture to carry out this program, both in purchases and distribution. They would also, prior to September 15 of each year, determine what the surplus situation looks like for the upcoming marketing year, and based on what that is, that is 10 percent, what have you, and then we get down to individual farmers' base and some assessment. We put farmers actually into three groups under the Gunderson proposal.

Group 1 would be the farmers using 10 percent surplus as an example. The group 1 farmers that use 90 percent of their base would receive no penalty, they would receive the higher support price of $13.79. Seventy percent of parity. When you pencil this out from a farm management standpoint, you look at additional cow income that they would have and the incentive under the cull cows, you figure in the savings of variable cost, you will actually increase net farm income by cutting back. I think that is a very important part of this proposal.

You increase net farm income by cutting back because of savings and increase cull cow income. No other proposal, including the administration proposal, clearly allows this to happen. The national milk proposal does not allow it to happen, because even with getting your refund back for cutting back, maintaining the $13.10 price, you actually still end up with a less net income at the same price. So there is not the incentive to cut back. That is the purpose of the 70 percent of parity in the Gunderson proposal.

Under the administration's proposal, production would actually increase. In fact, if you pencil that out, you can show that you get increased net income by expanding.

Now, unfortunately, the only people who have the opportunity to do that are the farmers that are heavily capitalized and do not have the debt because the young farmer with high debt will be lost in this process and forced out of business. So you will get production down.

Under the National Milk Federation proposal, you can increase net income by staying the same. However, you cannot increase it as much as I said under the Gunderson proposal. You keep the price under $13.10.

Also, if you pencil that out, if you increase production 26.5 percent under the National Milk proposal, you can have the same level of net farm income as you do if you cut back 10 percent. And with increases beyond 26.5 percent, you start increasing that income. You just pencil it out, and you find that it is true. So there are some farmers, if they had a 40 cow herd, who could expand by adding 10 or 12 cows. I think some farmers would take that as an alternative. Where under the Gunderson proposal you pencil it out, that is group 1 farmers, will cut back. I think there is more incentive.

The second group of farmers is those who produce 100 percent of their base. In those cases, 90 percent of their milk, they get the higher price for their milk, but about $6.45 per hundredweight for the 10-percent surplus.

Group 3 are those farmers that chose expanded production. There we have a three-tier pricing system because again 90 percent of the base, $13.79, on the 10 percent of base, $6.45, but that over the base a lower price of about $5 or it could be lower, that could be adjusted according to the increased production. So, I think clearly, in summary here, that the Gunderson proposal offers an effective method of cutting production.

There has been analysis done of this, independent analysis, the Milk Industry Foundation, International Association of Ice Cream Manufacturers did an analysis. They conclude, because of the incentive, you can improve your net income by cutting back.

In addition, as Congressman Gunderson pointed out, it does so by cutting costs. I guess that is why we are here today because we are cutting too much money in the program. It will save the Federal Government expenditures about $1.3 billion. Also, if you look at it compared to the administration's proposal, the National Milk proposal, we estimate in fiscal 1983 that the Government cost would be somewhere around $489 million for the Gunderson plan and $598 million for NMPF, for their responsibility to buy surplus pounds of milk. If you compare that $489 million figure with the administration's proposal, this would save the Government $702 million more money in fiscal 1983 and, compared to the National Milk Producers' proposal, it would save $275 million more money.

Also if you pencil out for fiscal 1983, you will find that the Government cost is less under this proposal than under some of the other alternatives. Plus, it does it with ending up also over the fiscal 1983, 1984, 1985, the highest net income to dairy farmers, not much higher, but there is a higher net income. I think that is important to preserve the family type structure in the long run.

Thank you.

Senator **Cochran**. Dr. Cropp, thank you very much for your testimony and for being here as part of the congressional panel.

I wonder about the potential for discrimination in this program that you are describing for those areas that have not increased production.

You establish a base that is represented by current production. Does this account for the States and areas that have increased production dramatically over the last 2 years? There are five States that have accounted for over 50 percent of the increase in production, and there is no difference, as I understand it, in the application of your bill to those States and the other States. In my State, dairy farmers have increased their production less than 1 percent of the Nation's total in the last 2 years. But States like California, that accounted for 19 percent of the increase between 1979 and 1980, and another 16 percent of the increase between 1980 and 1981, are going to get locked into those high production levels.

How do you justify that?

Dr. **Cropp**. I agree. In fact, back in Wisconsin we are decreasing production right now. We are about 2 to 3 percent lower than last year.

We feel that production is going down. We would have to cut as much as some other areas. That is the basis of the 3-year base. Going back over 3 years, you will cause a greater reduction in those areas of increased production more than otherwise because you go back 3 years, there will be more of those farmers over their base. It does address that issue of asking for greater reduction in milk production if they increase more.

The problem with that, we have let some individual farmers in a State, due to some past programs and some financial management decisions, to expand. It would hurt them more. But a 3-year base does address that issue.

Senator **Cochran**. Thank you very much.

Do you have a response to that, Jim? I know your legislation is designed to protect those regions of the country where production has not increased. But you can look at the numbers, Wisconsin and Minnesota, Pennsylvania, New York, and California account for about 50 percent of the increase over the past 2 years, and it is during that 2-year period when we run into this tremendous cost to the Government—the problem of the dairy program that has alarmed everybody, including dairy farmers, consumers, and taxpayers alike.

Does your legislation not seek to address that part of the problem?

Mr. **Jeffords**. There are differences between the Jeffords proposal and the Gunderson proposal, and we try to allow for those kinds of problems. I have a feeling that by the time Mr. Gunderson and I sit down, that these kinds of problems can be worked out.

I think the important thing though to point out is that in order to rectify overall, you have to go back to a 3-year base in order to take into consideration the very huge production increases that have occurred in those areas and to point out, my feeling is very strong that that is a temporary situation out there which could get locked in, which you want to be careful about. What we have to do is put a temporary proposal in to get the production locked and reduced in those areas which have been the real heart of the part of the problem.

As I pointed out earlier, your area and my area, and east of the Mississippi were not the problem, but we are going to be the biggest part of the solution under the administration proposal. And we ought to try to do something that does not do this because of this temporary low grain.

Senator **Cochran**. Even under this proposal that has been described to us, if a farmer in Vermont produces 100 percent of his base, he is in effect penalized.

Is that not what I understood you to say?

If a Mississippi farmer has not increased his production, but produces 100 percent of his base, he does not get the full support price. Is that not right?

Mr. **Jeffords**. No, I do not think so.

Senator **Cochran**. You say that if he produces over 90 percent of his base, that he ends up with a price which would be less than the full support price?

Dr. **Cropp**. That is true. However, in going to 70 percent of parity, if you take that price out, it goes to the price that he maintains now. When you talk about cutting back, not every farmer is in the same position to cut back equally. Everybody has to cut back 10 percent. There are farmers that have more low-producing cows and herds. Some have expanded more and more room to cut. We have producers that have a milk facility. They are running cows in and out and, actually, they are somewhat flexible how many cows they can milk in that facility.

Many of our farmers just started in the last 5 or 6 years are not in a position to cut production as much. They are not in the position to take a cut in milk prices. Even though we have an assessment, and we pay a penalty, but for maintaining that price there will be little change in income.

Mr. **Jeffords**. You are correct, there is a change in the process. We have 100 percent of the 3-year base rather than 90 percent. We have a 5-year base, pay 100 percent.

Senator **Cochran**. I appreciate very much your taking the time to be here and help us kick off the hearings in the way that you have.

Senator Dole, do you have questions? I am sorry.

Senator **Dole**. No, I do not have any questions. I have to go to the hearing on the debt ceiling. Senator Packwood is presently chairing the meeting for me. We are only raising the national debt to $1,145 billion. That does not attract much attention.

I do want to say to the administration witnesses that there are some good points in what you suggest, but we have never—and I notice the former chairman of this committee is here, Senator Talmadge—never given any Secretary that much discretion. We would not give Don Regan that much discretion to raise or lower taxes. I do not think we want to give that much to this administration. But I do believe there is the promise of reaching a compromise here. Most people who will testify are certainly concerned about dairy producers and dairy producers are concerned about their surplus problem. It is a whole different attitude now compared to just a year ago. I think that attitude is going to make it easier for the Chair and others to put together a package to protect the dairy producers as well as the taxpayers and consumers. The price of this program, as I recall, has gone from about $50 or $60 million just a few years ago to about $2 billion in fiscal year 1981. There are other commodities that contribute to the overall problem. Maybe even wheat may sneak into the Federal budget from time to time. This Senator offered the amendment during the farm bill debate last fall to lower the target price for wheat. If that is not backing into a buzz saw, I do not know what is. But we have to control the cost of these programs or we have to raise revenues. I think the climate for compromise is good. We are going to hear an outstanding witness from my State, Norman Barker. Unfortunately, I will not be able to stay and listen, but I did read his statement.

I want to thank the chairman for taking the first step in what may be a long process. Thank you.

Senator **Cochran**. Thank you very much, Senator.

Thank you very much, gentlemen.

Our next panel of witnesses is the Honorable Richard Lyng, Deputy Secretary, U.S. Department of Agriculture, and the Honorable William Lesher, Assistant Secretary for Economics, U.S. Department of Agriculture.

I am happy to have you here. I know that you are happy to be here to hear all of the applause your proposal has received.

STATEMENT OF HON. RICHARD LYNG, DEPUTY SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY HON. WILLIAM LESHER, ASSISTANT SECRETARY FOR ECONOMICS

Mr. LYNG. I am delighted to be here, Mr. Chairman.[1]

It is a pleasure to have this opportunity to discuss the dairy price support program with you. In general, this program performed very well during the 1960's and 1970's. It assured adequate supplies of dairy products at reasonable prices to consumers as it was intended to do. But, there are problems with the program now which demand a solution. Program costs have skyrocketed from only $46 million in fiscal year 1979 to $1 billion in fiscal year 1980, then to $1.93 billion last fiscal year, and we are expecting net outlays of $1.94 billion this fiscal year. Costs of this magnitude simply cannot be allowed to continue.

The Reagan administration supports the need for a dairy price control program. We accept the public policy which provides for adequate, steady supplies of pure wholesome milk at reasonable prices. To do this requires a program which provides dairy producers an adequate return. This can be done, but must be done at substantially lower costs to the Government and in a way that can be administered in a timely manner. Before discussing our specific proposal, it may be of value to review the recent history of the program.

Prior to 1977, dairy legislation required the Secretary of Agriculture to support the price of milk between 75 and 90 percent of parity on an annual basis. Even though it was not specifically required by law, the usual procedure was to make a smaller price adjustment in the middle of the year to maintain the support level and to avoid having to make a very large price adjustment at the beginning of the next milk marketing year.

The Food and Agriculture Act of 1977 increased the minimum support level from 75 to 80 percent of parity and mandated a midyear adjustment of the support price. When the 1977 act was passed, there were reservations about mandating 80 percent of parity with semiannual adjustments. That is the reason the 1977 provisions were enacted for only 2 years. In 1979, the impact of these changes was not yet fully apparent—program costs were still lower—and as a result, these provisions were extended for 2 additional years. When production began to increase rapidly in fiscal year 1980, it became clear that continuing support prices at 80 percent of parity with semiannual adjustments was a major mistake.

We have a chart which describes what has happened since fiscal year 1979. I will not go into great detail on it. It is in the testimony that I submitted, but you can see that the support price went from $9.87 per hundredweight in fiscal year 1979 to $13.10 per hundredweight in fiscal year 1981. The milk commercial production remained flat and the acquisitions by the Commodity Credit Corporation grew tremendously. The resulting costs have skyrocketed to $2 billion per year.

As it has been pointed out by other witnesses—Mr. Chairman and members of the committee, there is widespread agreement that something needs to be done about the current dairy program. I think that it also has become apparent already today, however, that there is no agreement on what needs to be done.

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[1] See p. 142 for the prepared statement of Secretary Lyng.

It would be wrong to blame milk producers for the overproduction problem. The problem was not caused by producers—it was caused by those in Government who did not have the foresight to see what would happen with the passage of legislation that provided for inflexible adjustments in the price support level which bore no relationship to the marketplace. Dairy producers did what any other producer would have done. They reacted to the price signals that were being sent. The trouble was that the Government was sending the signals, and the signals were wrong. Surely the one lesson that we should have learned is that minimum dairy price supports indexed to rigid formulas can cause serious problems.

When this administration took office, the program was out of control. An early decision was made to hold the price line as a first step toward getting milk production under control. A proposal was made to eliminate the semiannual price increase that was scheduled for April 1, 1981. With the help of the Congress, the administration was able to hold the support rate at $13.10 per hundredweight rather than raise the price support level as called for in the 1977 act. The second step was to seek legislative authority in the new farm bill to forgo any further price support increase until milk production was brought into balance with the consumption of dairy products. We faced some strong opposition, but we were able to achieve some moderations in annual price support increases.

Production adjustment requires lengthy time periods in the dairy industry. It takes more than 2 years to bring a heifer calf into the milking herd. Once in the herd, milk cows have a productive life of 3 to 5 years. Authority to maintain the price support of $13.10 per hundredweight in fiscal year 1982 has given us more time to evaluate current production conditions, but we are still faced with the statutory requirements to increase price supports again October 1, 1982, and to continue to increase them in 1983 and 1984.

It is now clear that the legislative changes made last year did not go far enough. We could spend another $6 billion between now and 1985 and still not solve the basic overproduction problem, an overproduction problem of considerable magnitude. As of May 21, 1982, we had 419 million pounds of butter, 684 million pounds of cheese, and 1,045 million pounds of nonfat dry milk in Government storage—a total of 15.4 billion pounds milk equivalent—and these stocks are continuing to increase at an alarming rate. The rigid price support increases, mandated in the 1981 farm bill, could more than double Government stocks by 1985. We cannot let that happen—we in the Department of Agriculture know it, you in Congress know it, and dairy farmers know it.

Dairy producers understand the problem and they want a solution. They recognize that continued Government costs at current levels could well endanger the basic program and threaten the stability of the industry. The overriding mood at the Kansas City dairy symposium called by Secretary Block was to find a solution—but, whatever the solution, it has to work. We cannot afford to make another mistake. Further legislative changes must be made to insure that the dairy surplus situation is brought under control.

Our overall dairy package covers many areas—disposition of surplus stocks, research, product promotion and market development—much of which does not require further legislative authority. However, we are requesting legislative authority in three areas: (1) Discretionary authority for the Secretary of Agriculture to set the price support as needed to bring milk production under control; (2) establishment of a dairy advisory board; and (3) amendments to section 416 of the 1949 act to allow the Commodity Credit Corporation [CCC] to donate dairy products overseas and to permit domestic donation of these products to needy households.

Discretionary authority to set the price support does not mean that the price support would drop automatically. We are approaching a critical phase in the production cycle which could establish the production pattern, up or down, for the next several years. The rate of increase in milk production has been slowing since the first of the year and may even begin to drop below year-earlier levels in the coming months. At a crucial turning point like this, price expectations are extremely important. The choice is simple. Will the Congress maintain the price support increases mandated for the next 3 years—price support increases that may trigger a new period of production expansion and steadily increasing program costs? Or will you give the Secretary discretionary authority to hold the price line, or even drop the price support level next January, if that is necessary to bring milk production and program costs under control?

If he is given that discretionary authority, the Secretary of Agriculture has pledged not to adjust the present support level until January 1, 1983. In the event that milk production has not begun to decline by January, we believe that the price support would have to be lowered, to perhaps as low as $12 per hundredweight at that time. Clearly, timing has become extremely important. The sooner that Congress gives a clear signal to the industry, by providing discretionary authority to the Secretary to lower the support price if necessary, the greater the likelihood that no reduction or a more modest reduction in the support price will be needed.

We are fully aware that there is opposition to the granting of full discretionary authority to the Secretary of Agriculture to determine a proper price support level. In the past, the Congress has insisted upon some mandatory minimum price support levels. May I submit that this rigid requirement has, since 1977, created the massive problem that we face today. The blunt fact is that the Congress often moves too ponderously, too slowly, and, yes, sometimes even too politically, to make timely and critically needed adjustments in the level of dairy price supports. The Secretary of Agriculture should be given this discretionary authority as a practical step toward effective, responsible government.

Despite what others may say, our proposal would put a major constraint on the Secretary of Agriculture by requiring that he provide a support price level which will "assure an adequate supply of pure and wholesome milk." No Secretary of Agriculture would be permitted to lower the support price to a level which could result in a milk shortage.

May I respectfully remind this committee that this is the third time in 15 months that I have testified before you, asking for a change in dairy legislation. If our proposal is rejected in favor of a more rigid, nonadjustable plan, there is a strong chance that within another year we will be back again asking for additional adjustments. This should be avoided and can be avoided by adopting our proposal.

To assist the Secretary in using his discretionary authority to set the milk price support, we are also requesting authority to establish a dairy advisory board consisting of dairy producers and others knowledgeable of the industry. Board members would advise the Secretary on a wide range of dairy issues, including the setting of price support levels and the disposition of Government-owned inventories of dairy products.

Finally, we are requesting reinstatement of section 416 authority whereby the Commodity Credit Corporation will be able to donate dairy products for use abroad. This authority would provide for direct CCC donations abroad, in addition to the Public Law 480 programs, and would facilitate constructive uses by the CCC of its surpluses while allowing the United States to enhance its role in responding to food needs of hungry people around the world. The amendments to section 416 also would authorize expanded distribution to needy households in the United States, which is currently prohibited, except in very limited circumstances.

I will not go into the specifics of the other parts of our dairy program that do not require legislative action. The program is extensive and materials describing each of the separate parts have been supplied to the committee.

I would like to mention, however, that we are making administrative changes to reduce the level of dairy product stocks. These include authorizing an additional 120 million pounds of cheese for distribution to low-income households, for a total of 220 million pounds donated this year, and providing nearly $500 million in bonus dairy commodities—approximately 700 million pounds—to eligible institutions this fiscal year. In addition, we are increasing the distribution of surplus dairy products through expansion of the food bank distribution projects, sale of out-of-condition nonfat dry milk for animal feed, and increasing donations under the Public Law 480 food aid program.

One last thought. The dairy price support program has worked well in the past and it can continue to work well in the future. The strength of our proposal is in its basic simplicity. It does not require a large new bureaucracy to function. It gives clear price signals to producers, and buffers producers and consumers from seasonal and cyclical price instability without distorting the long-term price signals needed for long-range planning in this industry. The fact that the price signal has been wrong since 1979 is not the fault of dairymen and it is not the fault of the way in which the program has operated. Some of the same persons who opposed our legislative proposals last year are now admitting the program has failed and the program needs drastic restructuring. Bills have been introduced to create producer-operated boards to set prices and control the supply of milk and to establish complex price formulas and two-price plans that cannot possibly be used as a guide for production decisions. These proposals would create a vast bureaucracy to make production decisions and operate the system. Worst of all, under some of these proposals, producers would be required to give up their freedom to make their own decisions and to accept production bases and complex pricing plans as part of the price of being allowed to produce milk. We have had experience with supply control plans in the thirties and late forties—they did not work then and they are not likely to work now. For these reasons, I urge you to accept the dairy program the Reagan administration has offered which will, in the long run, assure viability to the entire dairy industry.

Thank you, Mr. Chairman.

Senator COCHRAN. Thank you, Mr. Secretary.

I have a question that deals with the basic assumptions that are made here in the hearing chart, which I think are consistent with the approach that the administration is taking. Your argument is based on the assumption that because milk support prices have been increased from 1979 to 1981, as they have, from $10 to $13 roughly, that we have seen the corresponding increase in milk production which caused that.

My question is, if the increase in the support price is the reason for the increase in production, why has it not been uniform throughout the United States? Why have five States generally been the areas where we have seen the greatest amount of the increase?

In Mississippi, Vermont and some of the other States, for instance, you have such a small increase, less than 1 percent of the total amount of the increase. What is the explanation?

Mr. LYNG. I think there are a number of factors, and perhaps Dr. Lesher will want to correct me or add to what I have to say.

But I think that in the short term you will get more of this sort of shifting than you would in a longer term. It may be that there is a constant shifting of production. There has been a constant increase in some of these areas—the increase shows up here, and there has been a trend for decreases in some other parts of the country. Part of this is due to market facilities, ability to find homes.

In my home State of California, the weather in combination with the high guaranteed dairy support prices from the Government has definitely encouraged an expansion of production that would not have taken place otherwise.

[The following material was subsequently submitted by Dr. Lesher:]

Mr. Chairman, you are correct in pointing out that Mississippi and Vermont are two States in which milk production has increased only modestly in the last several years. This is in contrast to some areas in the Western part of the United States where production gains have been large in recent years. As the Deputy Secretary pointed out, there are a number of complex reasons that explain rates of change in milk output. These factors include variations in feed costs, dairy cow and slaughter cow price relationships, off-farm job opportunities, the share of milk priced under milk marketing orders, as well as the percentage of milk going into fluid and manufactured products. These factors vary widely from region to region and underlie the differences in output throughout the Nation.

Senator COCHRAN. But your proposal, which is basically to grant full discretion to the Secretary, will permit an adjustment that will be made nationwide in the support price. The signal that has been sent is that the adjustment will not be any more severe than a reduction to $12 per hundredweight in January of 1983.

But does not this, in effect, discriminate or penalize more severely those areas of the country where the production has not been increased?

Mr. LYNG. I do not think that at all, Mr. Chairman.

I think that the profitability of some of these operations, in areas which has experienced increases in production depends heavily upon the current price level. A reduction to $12, I think, would be a very discouraging signal to some of the huge dairies where they pay union wages, and where their costs are higher. But the very fact that the Government has taken the uncertainty of the market away has encouraged capital investment that is quite significant.

I think the most efficient dairies in the country are the family dairies. They are the ones that can survive a more difficult period, in spite of some of the testimony that we have heard already. I think that we have seen this not only in dairy support prices but in all support prices. The higher you get them, particularly if you get them to a level where there is a guaranteed profit involved, you attract all types of new capital. And I think that has happened in those States where both the capital and the opportunity to apply it have existed.

Senator COCHRAN. Well, knowing as we do the inflation rate over the past 3 years, the increased cost of money because of higher interest rates, this adjustment that we see from the $10 to $13 level really accommodates those increased costs of production to most of the dairy farmers in the country so that the net income picture is really not a great deal better. In many cases it is worse for farmers in many parts of the country than it was back at the 1979 level of support. So then to arbitrarily reduce it to $12 or whatever number the Secretary might decide upon later seems to be not recognizing the fact that we may have a corresponding increase in the cost of production that will not permit those farmers to stay in business.

I was frankly worried and alarmed by the suggestion that Congressman Jeffords made that we can see a 50-percent reduction in numbers of dairy farms in those areas of the country which have not increased their production if this proposal is accepted and approved by the committee.

Do you have any figures that would suggest that this would not be the case?

Dr. LESHER. I would point out, Mr. Chairman, that higher or lower price supports do not necessarily mean that you are going to have more dairy farmers or less dairy farmers. Many other factors are involved.

We started out in 1977 with the milk price support level mandated at 80 percent of parity, semiannually adjusted. After 2 years, we extended that level of support for 2 more years. During that period of time, the number of dairy farm operations decreased by about 15 percent. In other words, high price support levels, if you want to call 80 percent of parity a high price level support, lead to a significant decrease in the number of dairy operations in this Nation. When you drop the dairy price support level, it is going to affect all sizes of operations—including the very large and the very small. It depends on each individual dairy producer's cost structure, and one cannot say that a herd of 35 cows is more or less efficient than a 250-cow herd. The cost of producing milk depends upon the time you entered the industry, the amount of debt you have, the level of interest you are paying and many other factors. So one cannot say that an adjustment in the dairy price support level will impact small dairy operators more than larger ones.

Senator COCHRAN. Last Saturday I went down to my State to meet with a group of dairy farmers. On the way down in the airplane, I was served a snack that included cheese, wrapped in foil, that was imported from Finland. And I thought, well, here I am going down to Mississippi to talk about these proposals to cut back the dairy program, and here I am eating this cheese from Finland. And I wondered do we have any assessment about the impact of our import policies and trade agreements, where we are obligated, to foreign countries to purchase a certain amount of their dairy products? What impact, if you know, has that had on this surplus problem that we have? We are giving away cheese and we are importing cheese, and we are proposing to cut back dairy farmers. Can this get sorted out so that it makes any sense to the average American?

[The following information was subsequently submitted by Mr. Lyng:]

Most dairy product imports including cheeses are subject to quota restrictions under section 22 of the Agricultural Adjustment Act of 1933 as amended.

During the Tokyo Round of the Multilateral Trade Negotiations (MTN), the U.S. Government agreed to an expansion in its cheese import quotas beginning January 1, 1980. However, as part of the agreement to the increase in quotas, the U.S. imposed absolute import quotas on cheeses that were not previously covered by quota restrictions. Virtually all cow's milk cheeses (except soft-ripened and certain specialty cheeses) are now under quota. This places about 85 percent of all imported cheese under quota, the remainder being goat's milk cheeses and some specialty cheeses. The maximum allowable cheese import quota established by the Trade Agreements Act of 1979 for any calendar year is 111,000 metric tons.

Imported cheeses account for only about 6 percent of all cheeses consumed in the United States. Most of these cheeses tend to be relatively high-priced specialty cheeses for which there is a consumer demand in the United States. As noted, most cheese imports are subject to quota and licensing restrictions which are very closely monitored by the U.S. Customs Service and the Department of Agriculture.

Mr. LYNG. I am not sure that it is going to make much sense. During the Tokyo round of trade negotiations, we agreed to a certain volume of quota cheese, and then we did agree to certain kinds of cheese, but we could come in beyond the quota. Both of these come in at sizable quantities and have some effect. Some of this cheese we do not produce. Others come in that I think we could produce. Some of it is heavily subsidized. We are the largest single customers of the European Community for cheese. All of that cheese that comes from the European Community is subsidized, and we agreed to that in the Tokyo negotiations.

Senator COCHRAN. That wasn't during your watch, was it?

Mr. LYNG. It was not.

Senator COCHRAN. Does this administration plan to try to renegotiate some of those deals that were made a few years ago?

Mr. LYNG. We are in constant discussion with the European Community on a host of things, and cheese is one of those things we suggest to them that we will put out on the table. We say that almost in a threatening way.

Senator **Cochran**. We will have to be able to justify whatever we do here to the American people. I don't know how we justify amending 416 as you suggest to permit donations of cheese and other dairy products to foreign countries. We are buying significant quantities under agreements that were made during the last administration. It may be hard to justify that, unless we first renegotiate some of those deals.

Mr. **Lyng**. Yes; this gets into a touchy area. The United States, as a whole, has a favorable trade balance with Europe; we sell them large quantities of soybeans and corn gluten which they use to produce other products and export. Therefore, it is a complex issue.

Senator **Cochran**. One last question, the National Milk Producers Federation, as you know, has come up with a proposal that many of us have looked at and reviewed. I wonder what your assessment of that proposal is. Has the administration formulated a position on their suggestion?

Mr. **Lyng**. We have not analyzed it in great detail. We have discussed this proposal informally with the Milk Producers Federation. There are certain parts of them that we indicated that at first glance we would oppose with considerable vigor, but we have not formed an official administration position on it. We will do so.

Senator **Cochran**. Thank you.

Senator Hawkins.

Senator **Hawkins**. You are trying to put the dairy program on a sounder footing. Presently everyone agrees it is unacceptable to the administration and to Congress. We hope your information will help solve the problem.

Dairy adjustments take time to take effect. How long would it take for your proposal to reduce the Government's purchase of excess dairy production?

Mr. **Lyng**. Our estimate is, if there were a need for an adjustment to $12 per hundredweight on January 1, we could achieve savings in fiscal 1983 of approximately $700 million. I must add, however, that our ability to estimate these things is limited. We can't be sure. The thing that we strongly believe is that we cannot ask these producers to adjust to price support level changes immediately. The reason is that the Government led them into this situation. We have got to cooperate with them in leading them out. I know we have been accused of being politically motivated, because this is an election year, and so on. It is not our intention at all to precipitously drop that support level. We are asking for the authority to do it simply because we can't anticipate these things. We don't think the Congress can either. There is a need to give some leeway, at least a broader corridor for the administration to make adjustments rather than to come to the Congress every time it doesn't work well.

Senator **Hawkins**. Why do you propose to wait until January 1 before changing?

Mr. **Lyng**. If we were to give a clear signal to the dairymen soon, it might not be necessary. We detect a number of things are changing that could turn the situation around. First of all, we are seeing an improvement in the price of cull cows.

Senator **Hawkins**. When did that start?

Mr. LYNG. Just in the last few weeks. The price of beef in the last 2 or 3 months has risen and the price of cull cows also has increased correspondingly. This certainly helps and has been one of the factors that has kept dairy producers in production. We see a potential for some improvement in grain prices which would be of great help in reducing milk production. We believe nothing needs to be done or should be done before January 1.

Senator HAWKINS. Do you believe that the present dairy program threatens the integrity of the other agricultural, commodity-price support?

Mr. LYNG. While I think that might be overstating it, Senator, I am concerned about the potential that the public criticism of the dairy program might cast on other agricultural programs. I say this because agricultural programs are not always understood by the general citizenry. It causes some feeling that all agricultural programs are heavily subsidized—and that just isn't the case.

Senator HAWKINS. Has the Secretary of Agriculture ever had complete discretion to establish support price?

Mr. LYNG. Not to my knowledge.

Senator HAWKINS. Why should dairy be treated differently from other commodities?

Mr. LYNG. Because of the impossibility for the Congress to be able to make these decisions on a long-term basis that balances the supply and demand for milk.

Senator HAWKINS. What problems do you see in the proposed base points?

Mr. LYNG. We haven't evaluated them totally. A base plan would be very cumbersome and complex to administer. For one thing, just the questioning this morning of other witnesses I thought brought out the fact that there are a number of hardship cases that would develop, and require complicated solutions. Thus, we would be tied up in publishing regulations, getting them through court challenges, and all the rest. I think it would take at least a year before a base plan could be made operational.

I was director of agriculture in California when we established a base plan there. It took more than 2 years to get that base plan into operation, and then it had gone through a number of court challenges. This administration would oppose very strongly any kind of base program.

Senator HAWKINS. Your program would save money both for the taxpayers and consumers; is that correct?

Mr. LYNG. Yes; an adjustment in the price support level to $12 per hundredweight would reduce the price of milk to consumers as well as save taxpayers' dollars.

Senator HAWKINS. How much savings would be passed on to the Treasury, and how much would be passed on to the consumer, in your opinion?

Mr. LYNG. We believe that there is a need for the Government to maintain a surplus. The alternative is a shortage. Therefore there will be a Government expenditure for a dairy program. We would expect that perhaps $400 million a year would not be excessive to insure that consumers have available a reasonable and wholesome supply of dairy products. The fact is that we couldn't achieve that level for at least 2 or possibly 3 years.

Senator **Hawkins**. I have read where the average Government subsidy averages $10,000 per dairy farmer per year. Are those the figures you are using?

Mr. **Lyng**. About that for this year. I believe it may be a little lower than that.

Senator **Hawkins**. $10,000. I also read that the present price-support level increases consumer prices an average of $2,400—average per dairy farmer—per year.

Mr. **Lyng**. Wouldn't that be part of the other dairy figure you mentioned earlier?

Senator **Boschwitz**. The program will cost less than $2 billion this year. A large portion of the program cost is consumed in the storage. I can't let the $10,000 figure just lay out there. In the United States, there are 323,750 dairy farmers. If all the money went directly to the dairy farmers, it would be approximately $6,000 per farmer. But, all the money does not go directly to the dairy farmers, so I think it is probably less than half of that figure of $10,000. And it is clearly a mistake to say that each dairy farmer in this country receives $10,000.

Mr. **Lyng**. We would agree, it is less than $10,000 per dairy farmer.

Senator **Hawkins**. What is your opinion of reducing the price support 6 percent each month until reaching the level of $11.10?

Mr. **Lyng**. Your suggestion contains a degree of inflexibility that I think would be better avoided. It would be effective, but it would be also disruptive.

Senator **Hawkins**. If your program were put into effect, would it be difficult to substantially alter the program or enlarge the bureaucracy to carry out the program?

Mr. **Lyng**. Our program wouldn't call for the establishment of any new bureaucracy. It would be in line with the current program.

Senator **Hawkins**. Does your proposal lock in regional disparities in production?

Mr. **Lyng**. I don't think so, Senator. There are constant regional changes taking place in the United States—changes in population and in many other areas. We think some changes will continue in response to the other trends. The movement of people from the North to the Sunbelt, a fact we are all aware of, will call for increased production of milk to satisfy that additional demand. These things are logical changes. We wouldn't want to interfere with it.

Senator **Hawkins**. Thank you.

Senator **Cochran**. Senator Boschwitz.

Senator **Boschwitz**. Mr. Secretary, I want to look at your chart here. The ASCS would indicate in 1979, the cost was $250 million. All the other figures coincide. It has never been as low as $46 million, except in 1961.

Mr. **Lyng**. I will defer to the Assistant Secretary for Economics on this. He gave me the figures.

Mr. **Lesher**. Within the Department of Agriculture we have different types of budget figures—depending on the specific assumptions made. They come from different agencies, but these are the official figures. There may be some differences in net outlays versus gross outlays. If you would allow me to get back to you later, I will have an explanation.

[The following material was subsequently submitted by the Department of Agriculture:]

At the Senate Agriculture Committee's recent hearing on the dairy price support program, you requested a clarification on dairy program costs for fiscal year 1979. The chart used by Deputy Secretary Lyng showed costs for fiscal year 1979 at $46 million, while you cited the ASCS Commodity Fact Sheet as showing a cost of $250.6 million for the same year.

The $46 million is the net budget cost to the Commodity Credit Corporation (CCC) for the dairy price support program. It includes budget costs for Public Law 480, title II shipments. The $250.6 million figure is also a net cost figure which in addition to the $46 million of net CCC costs, includes a value for dairy products donated to the schools and needy and purchases of dairy products for the school lunch program under section 4(a).

Senator **Boschwitz**. That would be interesting. The others are gross outlays?

Mr. **Lesher**. All the cost figures in the right-hand column would be net outlays.

Senator **Boschwitz**. Do they include what is given at bargain prices to prisons? Are the net outlays reduced for the amount given to school lunch programs and sold at below cost to armed services?

Mr. **Lesher**. We support the price of milk through open market purchase of processed dairy dairy products and store them. If we make any of the stored dairy products, even if it is at a reduced value, we add those revenues to arrive at a net outlay number such as the ones included in the testimony. If we give the dairy products away, then there is no revenues to add to arrive at a net figure.

Senator **Boschwitz**. There are large offsets with respect to the school lunch program which are not charged to the school lunch program?

Mr. **Lesher**. As you recall, we went through this during the debate on the farm bill, and this is true.

Senator **Boschwitz**. Mr. Lesher, that is the interesting part of these figures. If the $250 million, as reported by the ASCS net out to $46 million, it may well be these other gross figures would also be lower if the support that dairy farmers are given to other Federal programs would be deducted from the cost.

Mr. **Lesher**. This is true Senator, but if you didn't give them away, how many dairy products would you use? Would it be less than what you would use right now?

Senator **Boschwitz**. The net cost of the program is what I am interested in. If that $46 million is the net cost of the program, then perhaps in the other years the net cost of the program would be less.

You pointed out in 1977–79, even though we were at 80-percent parity and even with semiannual adjustments, there was a reduction in the number of dairy farmers. Of course the situation was somewhat different then than it is today when many agricultural prices are depressed; they were not particularly depressed during 1977–79 which is probably the reason that there was a shift.

Mr. **Lesher**. In 1977, we had 393,510 dairy operations. In 1981, we had 323,750 dairy operations.

Senator **Boschwitz**. You will see the figures State by State on the back.

Mr. LESHER. When you talk about our proposal and that it is going to reduce the number of dairy operations, all I am saying it is very hard to judge whether higher or lower price supports will effect the number of dairy operations versus other things.

Senator BOSCHWITZ. The economics of dairy production were alluded to by Secretary Lyng when you said the cull cow prices were going up. If the feed prices go up, that will probably reduce dairy production. In the timeframe from 1977 to 1979, while the number of dairy farmers may have been reduced, you have to look at the total investment in the agricultural sector and see whether or not capital shifts back and forth as it always does.

During that timeframe, the parity price the chairman was pointing to went up about $3.23. I figure the $10.76 to $13.10 was a 20-percent increase. Before that, it was a 33-percent increase. Despite the increase in that price—production remained stable—121 billion pounds on the fluid basis in 1976-77 and roughly the same 2 years and 3 years later. So these higher prices do not necessarily bring about higher production if there is a balance in the agriculture community. There has not been that balance in the recent past which is probably the principal reason for the increase in milk production.

Would you say that is a reasonable statement?

Mr. LESHER. I think the reasonable statement would be that we share your view that feed prices are too low. That is one of the primary reasons for the newest situation of too much milk. I don't think it is the only one. I would agree, however, it is a primary one.

Senator BOSCHWITZ. We have been talking about the cost of the program as Senator Dole mentioned. Secretary Lyng said your ability to estimate the cost of the program is very limited?

Mr. LESHER. Yes; it is. I am not faulting our analysts, however, because it is a most difficult job.

Senator BOSCHWITZ. I understand.

Mr. LESHER. The industry and USDA analysts have not had a good track record. It is difficult to analyze what goes through a dairyman's mind when he reaches a decision to increase or decrease production. It is very difficult. There are many factors to be considered—some of which cannot be measured.

Senator BOSCHWITZ. It is no wonder many of the economists missed the present and past recession, so your economists over there just joined the crowd.

All my experience is, if you tell people on January 1st we will reduce the price, don't you think that production will be much higher in the interim and that will probably be despite the cull cow price and as long as the feed prices remain?

Mr. LYNG. That might be true if you were talking about a factory that was producing something made from machines. We are trying to give a signal to the producer how many machines he should have next year and the year after. The dairyman cannot increase his production quickly. It takes a long time. They make plans a long time ahead. I think it is essential that we try to give them some idea of what the future holds. We are quite confident in giving the Secretary the option to make needed changes, because none of us can anticipate these things. The Congress in its wisdom, with eventual concurrence of the Administration, passed a bill that the President signed into law on December 23, 1981, which provided for increasing diary price support levels through 1985. It became apparent in February, however, that we were in trouble. The production was too high. We had to come back to the Congress. What we are saying is give us some authority and we won't be coming back here all the time.

Senator BOSCHWITZ. We are concerned. We, in effect, lowered the price by not raising it and by holding it steady. How long has it been steady? Two years?

Mr. LESHER. It will be 2 years on October 1, 1982 that the price support level for milk has been $13.10 per unit. It was established on October 1, 1980.

Senator BOSCHWITZ. So the pricing held steady which, in effect, means it has gone down; it has not impacted production at all?

Mr. LESHER. Quite to the contrary. They have added cows and each cow on the average produced more than the one she replaced.

Senator BOSCHWITZ. Many farmers tell me, if you lower the price still more, particularly if you lower feed prices, that they will have an incentive to increase production, that they will not necessarily be lowering the production. How would you respond to that?

Mr. LESHER. We believe strongly that this will not be the case. We have heard that argument. We believe in the law of supply and demand and how price signals whether a farmer will produce more or less. We are convinced that it is the favorable price that dairy farmers have received for their milk has been the primary cause for increased production. For over 20 years, we had a decline in the number of cows. Only in the last 2 years have we seen the numbers of cows turn around and go up. Surely no dairy producer would add cows if he was losing money. He is responding to price and profits. Any individual does.

Senator BOSCHWITZ. With respect to 13 and 12—in the last 18 months the rate of inflation has gone down, but certainly during that period of time the total rate of inflation has been 10 percent, so the price has been reduced more than $1.30; and yet production has gone up. It is speculative to say if we will reduce the price $1, production will go up. The market is responsive to price, and so forth. I think that is a very speculative assumption.

Mr. LESHER. You are challenging the fundamentals of economics. You are telling me you don't believe in the law of supply and demand. Economics doesn't work that way. Just because the inflation rate has been 10 percent, it doesn't mean necessarily the farmer has experienced an increase of 10 percent in cost per unit of production. Some costs have gone up, some costs have gone down. The production efficiencies per cow have changed significantly. It is a dynamic, fluid situation. Farmers will not continue to produce milk unless there is a profit motive in it. I am as sure of that today as I am sure of it being true 20 years from now. They respond to profits and prices. It is human nature to do that.

Senator BOSCHWITZ. I have been responding for many years, prior to getting here, and I understand it. I agree with what you said, that it is external factors that will cause the amounts to go up and down. Those extraneous factors include the cost of food. I will conclude, but the bill that I am introducing today will quite clearly reduce the production of milk fairly rapidly, in my judgment, and I was even concerned about the rapid nature of it, because of its effect, perhaps, on other segments of the agricultural community.

But we believe it would reduce the cost of the program by approximately $1.3 billion. This is a relatively short-term program as we get the supply and demand back into balance. I would imagine changes could, and will, be made in my proposal as it weaves its way through Congress. I can't understand why my friend, David Stockman, wouldn't jump at that opportunity or why the Department of Agriculture wouldn't jump at that opportunity to see those figures go down markedly. Especially when you really don't have an assurance that, by reducing the price to $12, the production will go down. And you are not sure the cost of the program will go down unless you get a corresponding increase in cost of feed, energy, fuel and perhaps the value of a cull cow.

Why doesn't the administration take a more positive viewpoint?

Mr. LYNG. Senator, we will take a look at your proposal. We have looked at a number of others. Your concept is a complex, and a difficult one to administer. Perhaps there will be something in your legislation that would not be, and we will be happy to analyze it.

Senator BOSCHWITZ. We talked about subsidization of agriculture, and you talked about the European Market. The European Common Market subsidizes its farmers to the tune of $37 to $47 billion a year, not only in dairy, but other areas, and our costs are somewhat less than one-tenth of that. Hopefully, someone will come along and buy another 100 tons of butter.

Mr. LYNG. Or more.

Senator BOSCHWITZ. Any prospect of that, Mr. Secretary?

Mr. LYNG. Not at the moment.

Senator BOSCHWITZ. Let us see if we can figure some of that up.

Senator COCHRAN. Thank you, Senator Boschwitz.

Thanks, Mr. Secretary. Nice of you to be here and help us with the hearing. We appreciate your testimony very much. If questions occur to us that we didn't have a chance to ask, we might be able to submit some questions and hope that you will be able to respond.

Mr. LYNG. We would be pleased to assist the committee any way we can.

Senator COCHRAN. Thank you very much.

[The following information was received for the record:]

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., June 29, 1982.

Hon. THAD COCHRAN,
Chairman, Subcommittee on Agricultural Production, Marketing and Stabilization of Prices, Senate Committee on Agriculture, Washington, D.C.

DEAR MR. CHAIRMAN: Enclosed are answers to the questions submitted to Deputy Secretary Lyng from Senators Leahy and Huddleston following the hearings your committee held on the dairy program on June 9th.

If there are any additional questions, we will be glad to provide the necessary information.

Sincerely,

MICHAEL J. MASTERSON,
Director, Congressional Affairs.

Enclosures.

[Questions from Senator Leahy and Secretary Lyng's answers thereto:]

Question. The Emergency Dairy Adjustment Act requests authority to give the Secretary total discretion with regard to the level of dairy price supports.

The Secretary said on May 5, if granted this authority, and if production does not decrease enough, it does not "appear we would have to make a reduction below $12.00 per hundredweight on January 1, 1983."

(a) Clearly the Secretary has examined a forecast of dairy production and consumption for the 1982/83 marketing year. Can you provide the committee with that forecast and the assumptions used in preparing it?

(b) What supply/demand estimates does the Secretary have available to him now?

(c) I note that monthly dairy production statistics have been discontinued by USDA. How can we obtain the necessary statistics to make an informed judgment of the trend in dairy production without those reports?

Answer. The forecast and assumptions will be made available to the Committee. Supply-demand estimates for fiscal years 1982 through 1985, for the current law, the administration's proposal, and three other bills introduced in Congress will be transmitted to Chairman Helms and members of the Committee.

The Secretary has available the same procedures for developing supply/demand estimates now that have been available in USDA for the past several years. The Supply Estimates Committee meets as needed to update supply/demand estimates.

Milk production reports have not been completely discontinued. Statistics are no longer available monthly, but will still be published on a quarterly basis. This change was made as a part of the effort to reduce costs in USDA. This issue was carefully considered and it was concluded that the small increase in precision from monthly reports did not justify the additional cost—almost the same level of precision can be attained with quarterly reports. The next milk production report will be released July 16, 1982.

Question. Has dairy production slowed? Is the situation turning around?

(a) Is production declining in some parts of the country? Where?

(b) Is production continuing to increase in some areas of the country? Where?

Answer. The rate of increase in milk production has been slowing. In December milk production was 3.4 percent above a year earlier. In March the year-over-year increase was 1.1 percent. At this time, we cannot say that the situation is turning around, but there has been some improvement.

In March, 10 of the 33 States reported were showing milk production below year-earlier levels. These states were widely scattered, but included two of the five largest dairy states of New York and Wisconsin.

Likewise, 20 states were showing production above year-earlier levels. Again these states were widely scattered, but included three of the five largest dairy states of California, Minnesota, and Pennsylvania.

Question. If granted this discretionary authority, how much would dairy production have to decline before the Secretary would take no action to lower prices?

Answer. The Secretary would take no action to lower the support price if USDA projections were to show that milk production was moving into balance with commercial use without the need for a price reduction.

Question. How can a dairy farmer even make reasonable assumptions about the future of his business and the decisions he has to make to ensure his future is a viable one when the Secretary has total discretion to lower the support price?

Answer. This question suggests that if the Secretary were given discretionary authority that he would make unpredictable and irresponsible price decisions. No Secretary of Agriculture would administer this program in an irresponsible manner. The Secretary is bound by the statutory requirement that he provide a support price level which would assure an adequate supply of pure and wholesome milk. In addition, a shortage of dairy products would not be acceptable to the American public.

Question. Secretary Lyng, several proposals have been put forward by varous producer groups and others.

What is the Administration's position on the National Milk Producers Federation proposals?

Are you familiar with the proposals that the Commissioner of Agriculture for the State of New York has offered—the so-called Barber plan?

What is the Department's position on the Barber proposal?

What is the Department's position on the quota, or base plan, introduced by Congressman Gunderson?

Answer. There are some general goals of the National Milk Producers Federation's (NMPF) proposal that we agree with and can support. In general we agree that:

1. Stable milk prices contribute to more efficient milk production and also benefit consumers;
2. Milk prices should be supported at a level necessary to assure an adequate supply of pure and wholesome milk; and
3. Producers should have an input concerning the operation of the dairy price support program.

However, we do not support many of the specific elements of the NMPF proposal. For example, we do not agree that:

1. We need an independent producer board (and the large new bureaucracy this implies) in the Department of Agriculture to operate the program;
2. A major increase in regulatory and administrative burden on handlers and producers is necessary to control overproduction of milk;
3. Producers need a guarantee that the Federal government will purchase 5 billion pounds (milk equivalent) of dairy products each year;
4. An independent producer board would be better equipped, or less constrained, than the present organization in disposing of surplus dairy products; and
5. The NMPF program could be put into operation soon enough to provide any assistance in dealing with the current production adjustment problem.

The Barber plan would freeze Class I prices at existing levels in Federal order markets and lower the support price by $1.70. This proposal is offered as an alternative to lowering the support price by $1.00—the net effect would have been to reduce producer blend price by 91 cents per hundredweight in 1981.

We are opposed to this plan for the following reasons:

1. Differentials in average Class I prices in all Federal order markets would be raised by $1.70—from about $2.10 to $3.80 per hundredweight.
2. The price impacts of this plan would differ greatly by regions—the smallest impact would occur in markets with relatively high Class I utilization and the largest in regions with relatively low Class I utilization. The decrease in the producer blend price would be about nine times larger in the market with the lowest Class I utilization than in the market with the highest Class I utilization.
3. The proposal would discriminate against producers of manufacturing grade milk whose prices would drop by the full amount of the price support reduction while the reduction in prices to Grade A producers would be limited by the percentage of milk in each market used in manufactured products.
4. While prices to producers would be reduced, the lower returns would not benefit consumers of fluid milk products. Fluid milk products (Class I) would be frozen at existing levels.
5. Freezing the price for milk disposed of as fluid products and lowering the price for milk used in manufactured products would add support to the allegation that classified pricing is a price discrimination procedure used to benefit producers at the expense of consumers.
6. A substantial widening of Class I differentials would affect blend price relationships among markets and provide a price incentive for increased movements of milk from low utilization markets to high utilization markets. Such movements are not needed to meet fluid milk requirements.

All of our objections to the National Milk Producers Federation proposal also apply to the Gunderson bill, except that in this case the bureaucracy would be much larger, the regulatory burden even greater, and it would require a longer period of time to put the Gunderson program into operation. The Gunderson proposal calls for a fixed government guarantee to purchase 3.5 billion pounds (milk equivalent) each year. But, the objective of government purchases should be to stabilize prices and not to guarantee some fixed level of government utilization. Also, the Gunderson proposal for establishing marketing bases would freeze regional adjustments in milk production, provide for absentee ownership of marketing bases, and increase the cost of producing milk.

Question. Does the Department recognize the huge disparities in surplus production by region? Doesn't an across-the-board cut penalize some farmers for overproduction on the part of others?

Answer. The market for milk and dairy products is nationwide. The differences in surplus production by regions were created by across-the-board increases in the support price. Are these questions meant to suggest that across-the-board price increases were a mistake—that the support price should have been increased more in some regions than in others? I don't believe that you would now propose to correct that mistake by cutting the support price more in some regions than in others. We do not believe that would be a feasible policy. We do not believe that several regional dairy policies are needed to restore balance to our current situation nor would be in the best interests of dairy farmers and consumers.

Question. On March 3, the Secretary said in Seattle that "unfortunately, the export market is a poor alternative" for the disposal of surplus stocks. Yet, the Emergency Dairy Adjustment Act includes a plan to increase exports.

(a) What is the plan?

Answer. A continuation of that quotation reads as follows: ". . . and for a very good reason. First, our prices are substantially above the world market prices. Secondly, our Administration has been working with great determination to reduce trade barriers, and to convince other nations that they should not subsidize their products sold on the world market." To help alleviate the budgetary costs associated with surplus stocks and to meet any unsatisfied demand for quality dairy products in world markets, once legislation to lower price supports is passed, the Department will begin immediately to implement a policy toward expansion of commercial exports of CCC surplus dairy commodities. In doing this, precautions will be taken to prevent serious disruption of world markets and to make sure we are respecting our obligations under the General Agreement on Tariffs and Trade (GATT). To the extent possible, exports will be made on a bid basis through private firms.

Question. The Emergency Dairy Adjustment Act also proposes to study the possibility of increasing the solids in milk, as is done in California. Yet, over the past ten years, consumption of low-fat milk has increased by 90.6 percent, while consumption of whole milk has dropped by almost a third over the same time period.

Would not increasing the solid content of milk fly in the face of consumption patterns over the past ten years? Does the Administration really expect to save $290 million this way?

Answer. There have been consultations between officials in USDA and FDA concerning the adoption of new fluid milk standards which would require higher solids-not-fat amounts in fluid milk. Several points are being examined—including the ones you have raised. We are continuing to explore the advantages and disadvantages of this change, and have asked the States to consider adopting these standards. The Food and Drug Administration is the final authority in determining changes in these Federal standards.

[Questions from Senator Huddleston and Secretary Lyng's answers thereto:]

Question. In outlining the Administration Dairy proposal, Secretary Block stated that it does not appear, at this time, that he will have to make a reduction in the milk price support level on January 1, 1983, below $12.00.

Clearly, the Secretary has examined a forecast of dairy production and consumption for the 1982/83 marketing year, can you provide the Committee with that forecast and the assumptions used in preparing it?

I note that the Department of Agriculture has stopped publishing monthly dairy production statistics. It seems that these and similar statistics are necessary to make informed judgments of the trend in dairy production. What supply-demand estimates and forecasts are currently available to the Secretary, and can these be made available to the Committee?

Answer. The forecast and assumptions will be made available to the Committee. Supply-demand estimates for fiscal years 1982 through 1985, for the current law, the Administration's proposal, and three other bills introduced in Congress will be transmitted to Chairman Helms and members of the Committee.

The Secretary has available the same procedures for developing supply/demand estimates now that have been available in USDA for the past several years. The Supply Estimates Committee meets as needed to update supply/demand estimates.

Milk production reports have not been completely discontinued. Statistics are no longer available monthly, but will still be published on a quarterly basis. This change was made as a part of the effort to reduce costs in USDA. This issue was carefully considered and it was concluded that the small increase in precision from monthly reports did not justify the additional costs—almost the same level of precision can be attained with quarterly reports. The next milk production report will be released July 16, 1982.

Question. Has dairy production slowed? Is the situation turning around?

Answer. The rate of increase in milk production has been slowing. In December milk production was 3.4 percent above a year earlier. In March the year-over-year increase was 1.1 percent. At this time, we cannot say that the situation is turning around, but there has been some improvement.

Question. What is the Administration's position on the National Milk Producer Federation's self-help proposal?

Answer. There are some general goals of the National Milk Producer Federation's (NMPF) proposal that we agree with and can support. In general we agree that:

1. Stable milk prices contribute to more efficient milk production and also benefit consumers;
2. Milk prices should be supported at a level necessary to assure an adequate supply of pure and wholesome milk; and
3. Producers should have an input concerning the operation of the dairy price support program.

However, we do not support many of the specific elements of the NMPF proposal. For example, we do not agree that:

1. We need an independent producer board (and the large new bureaucracy this implies) in the Department of Agriculture to operate the program;
2. A major increase in regulatory and administrative burden on handlers and producers is necessary to control overproduction of milk;
3. Producers need a guarantee that the Federal government will purchase 5 billion pounds (milk equivalent) of dairy products each year;
4. An independent producer board would be better equipped, or less constrained, than the present organization in disposing of surplus dairy products; and
5. The NMPF program could be put into operation soon enough to provide any assistance in dealing with the current production adjustment problem.

Question. Mr. Lyng, you have made reference to innovative uses of dairy products to reduce the Government's stocks of those products and bolster demand for dairy products. How does the Administration propose to encourage innovative uses?

Answer. The Department is developing a Private Sector Inventory (PSI) System. This system will authorize storage of dairy products and other surplus agricultural commodities by private firms, and the conversion of stored commodities into end products to be sold at discount for use in the domestic distribution programs. Upon the publication of Interim Regulations, which are in clearance process in the Department, processor applications will be accepted. The PSI system will be operational for the next school year.

Research is planned to assist government and private sector groups in the development of an information campaign to increase consumer acceptance of dairy products.

New product development is being investigated by scientists in ARS. Meetings with the industry have been conducted and a task force has been organized to investigate ways to increase milk consumption.

Also, research officials in the Department have met with representatives from the American Institute of Baking to discuss joint research projects to increase the use of nonfat dry milk (NFDM) in baked goods. Programs are being considered which would achieve this objective.

Question. Mr. Lyng, what efforts have been made to reduce the Government stocks of dairy products?

What is the Department's policy toward use of these stocks in domestic food programs?

Answer. The Department is reducing the Government's stocks of dairy products by increased use of products in several foreign and domestic food programs:

1. ARS scientists are redrafting specifications to add nonfat dry milk to wheat-soy blends. Samples of the commodity have been sent to AID for evaluation and AID has informally advised that they approve of the product.
2. Legislation has been introduced in Congress to amend Section 416 to allow CCC to donate dairy products for use overseas. The Department is presently evaluating our policy for distribution of our dairy products to private releif organizations.
3. Six states are receiving technical assistance in ways to improve their distribution systems. Some states experienced transportation and warehousing problems in distributing cheese through food banks. Another 6 states are expected to be receiving assistance by the end of the year.
4. Eligible institutions continue to receive bonus dairy products at no charge to entitlements.
5. CCC sales of out of condition nonfat dry milk for animal feed, on weekly bid invitations, have been increased from about 1.5 to 2 million pounds. Lots have been divided into smaller quantities so that the smaller animal feeders can bid. CCC sold about 3.7 million pounds of NFDM for animal feed in May.
6. An Assistant Secretary of Defense has sent a memorandum to the Secretaries of the Military Departments and the Director, Defense Logistics Agency requesting increased use of surplus dairy products. A report within 60 days from the date of

the memorandum (May 27) was requested by the Assistant Secretary advising actions taken to achieve increased usage of surplus CCC-owned dairy products.

Question. What plans do you have to use the Government-owned dairy product stocks for distribution to needy households?

If you plan to make such donations, as you are authorized under current law, when do you propose to begin making these donations?

How much of the surplus can be distributed in this way?

Answer. Notice will appear in the Federal Register the week of June 14-18 announcing the authorization of an additional 120 million pounds of cheese available to States for distribution through food banks and voluntary agencies. This brings the total authorization of cheese to 220 million pounds this year. As of June 10, about 95 million pounds of cheese has been ordered by the states.

The Department has also distributed about 150,000 pounds of butter through a pilot project and recently announced a nationwide distribution of about 50 million pounds of butter. The first shipments of butter are expected to reach State distribution agencies in mid-July.

Food Bank Demonstration Projects have been established in Indiana, Pennsylvania and California. Recently, agreements have been signed for new projects in New Mexico and Tennessee, and negotiations are underway with Missouri and Connecticut. This would bring the total sites participating in the demonstration projects to seven.

Question. Mr. Lyng, you state in your prepared text that "The rate of increase in milk production has been slowing since the first of the year and may even begin to drop below year-earlier levels in the coming months." The Farm Bill (Public Law 97-98) was signed in December. Do you think that the dairy provisions of the bill, then, did send the proper signal to dairy farmers?

Answer. The Dairy provisions of the Farm Bill were only one of several similar signals sent during 1981 when semiannual price increases scheduled for April 1 and October 1 were eliminated. The Farm Bill signal in December was in the right direction, but it alone may not have been strong enough to provide a complete turnaround in the production expansion. That is why the Secretary has requested discretionary authority to send a stronger signal on January 1, 1983 if it is needed.

Question. You state an opposition to production bases as a means to control dairy production. Yet the acreage reduction programs now in place use an acreage base, and the Administration's version of the 1981 Farm Bill (S. 943, introduced April 8, 1981) also contained acreage bases. Is this not an inconsistent set of positions?

Answer. Acreage bases have played a major role in various field-crop programs since the 1930's. We have moved away from mandatory acreage bases to voluntary participation since this time. On the the other hand, the dairy price support program has operated effectively for 33 years with producers having the freedom to make their own decisions. We are convinced that the dairy program can continue to work well in the future without the regulatory burden of production bases and a large bureacracy making production decisions.

Senator **Cochran**. Our next panel will be the National Milk Producers Federation panel testifying on the dairy stabilization program:

Norman Barker, president, National Milk Producers Federation, Pratt, Kans., accompanied by Patrick Healy, executive secretary, NMPF; Don Slinden, First District Association, Grove City, Minn.; W. Eugene Flynn, Mid-America Dairymen, Inc., Blair, Nebr.; Bob Gaebe, Land O'Lakes, Inc., New Salem, N. Dak., and Myron Erdman, Associated Milk Producers, Inc., Chenoa, Ill.

We very much appreciate all of you coming to the hearing and being here to present your proposal and help us understand better the details of the suggestion you are making for solving the problem that exists in the dairy price support program. I understand Mr. Barker is the spokesman for the group, and will present the testimony, and that the balance of the panel is here to respond to any questions that the committee might have.[1] We appreciate so much your being here.

Mr. Barker, we will make a copy of your statement a part of the record in full and encourage you to make any summary statements from it, giving us the highlights of it. We do have a copy which we have had an opportunity to review.

You may proceed.

STATEMENTS OF A PANEL CONSISTING OF NORMAN BARKER, PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION, PRATT, KANS., ACCOMPANIED BY PATRICK HEALY, EXECUTIVE SECRETARY, NMPF; DON SLINDEN, FIRST DISTRICT ASSOCIATION, GROVE CITY, MINN.; W. EUGENE FLYNN, MID-AMERICA DAIRYMEN, INC., BLAIR, NEBR.; BOB GAEBE, LAND O'LAKES, INC., NEW SALEM, N. DAK., AND MYRON ERDMAN, ASSOCIATED MILK PRODUCERS, INC., CHENOA, ILL.

Mr. **Barker**. Thank you very much, Mr. Chairman.

We appreciate your allowing us to be here and participate in this hearing. I do have a statement.

I am Norman Barker, a dairy farmer from Pratt, Kans., and president of the National Milk Producers Federation. My testimony today will be directed toward the dairy stabilization program. James P. Camerlo, a Colorado dairyman and vice president of the federation, will be testifying in support of the national dairy products promotion program. I would like to associate myself with the statement he will make.

As has been mentioned, the dairy price support program is a basic element of our national dairy policy. We have had a great deal of discussion today about the need for changes in the program and problems that have been noted, but we must not lose sight of the fact that the program has worked and is working.

We recognize there is a need to make changes in dairy policy so as to reduce Government costs and restore the necessary balance between supply and demand. But we must not view this simply as a dairy issue. The far broader question of adequate farm income plays a significant role. Much of the problem now being faced by the dairy industry has its roots in inadequate farm income levels for producers of other farm commodities. Unless these problems can be overcome, solution to the dairy question will be much more difficult.

The dairy stabilization program has been under intense review and development by dairy farmers across the country for several months. It addresses the basic needs at this time in a manner that maintains the structure of the price support program.

Through a two-tier price support system, the program focuses the burden of adjustment on the portion of milk excess to commercial market needs. That portion of the milk supply needed to meet commercial market needs would be covered by a price support at $13.10 for the coming fiscal year. In succeeding years, that support level would be at the percent of parity $13.10 represents on October

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[1] See p. 145 for the prepared statement of Mr. Barker; p. 159 for the prepared statement of Mr. Slinden; p. 160 for the prepared statement of Mr. Flynn; p. 162 for the prepared statment of Mr. Gaebe; and p. 164 for the prepared statement of Mr. Erdman.

1, 1982—about 68 percent. A lower level of price support would be provided on that portion of the milk supply determined to be excess to the needs of the commercial market. This level would be such that the difference between the two levels, on a national basis, would provide the funds necessary to allow dairy farmers themselves to fund dairy product removals in excess of 5 billion pounds milk equivalent. The projections attached to my statement illustrate current estimates of how the program would operate in the absence of an incentive to the individual dairy farmer to make a production adjustment.

But the program does provide a strong incentive for production adjustment. Provision is made to allow any farmer who can prove that he has reduced his marketings from the level of the previous year to obtain a refund of the funds withheld from his milk check. Thus, the farmer reducing output could effectively avoid the lower price support level on his marketings.

This concept avoids the objections the administration has raised to quota plans by not limiting entry by new producers and the possibility that the value of a base or quota might, in some way, be capitalized into the cost of production.

A dairy board established under the program would have basic responsibility for determining the funding necessary to meet the producer responsibility under the program. In addition, the board would be responsible for managing the disposition of dairy products acquired through price support operations. For the most part, all of the avenues of disposition presently available would be used, including commercial export sales. Any proceeds realized from the sale of these products would be available to reduce the producer cost of the program.

The program is simple and straightforward in concept. It places a direct and specific responsibility on the dairy farmer for a substantial portion of the cost of the program—unless adjustments are made in production. It is estimated that this would reduce Government costs during fiscal 1983 by $1.3 billion.

It will bring about a fairly rapid production adjustment as dairy farmers find they can avoid the direct costs of producing milk in excess of commercial market needs and also avoid the effect of the lower price support levy on that milk.

It will maintain the price assurance necessary to farmers so as to continue milk production at levels necessary to meet consumer demand. At a time when we are concerned about excess milk production, it may seem unnecessary to consider the prospect of short supplies. However these situations do change and care must be exercised in the management of these programs to avoid the most serious error of all—short market supplies.

We feel very strongly that this program will meet the goals set forth by the Secretary of Agriculture and do so in a more specific and beneficial manner than would be the case under the administration's plan. We do support a number of the elements of the program set forth by the Secretary in his May 5 announcement. They are welcome and necessary actions. We are opposed without reservation, however, to the request that the Secretary be given total discretion in the setting of the dairy price support level. The Congress has considered such requests in the past and rejected them. The same action must be taken on this request.

In total, the dairy stabilization plan would assure a continuing adequate supply of milk and dairy products to meet the needs of consumers; reduce Government costs in fiscal year 1983 by an estimated $1.3 billion; maintain the freedom of choice for individual dairy farmers to manage their own operations, and result in an orderly adjustment of production to match milk supplies with market demand.

We thank you very much. Other members of the panel will add to this.

Senator COCHRAN. Thank you, Mr. Barker. We appreciate your representing the panel in the oral testimony. We do have statements that have been received from the other members of the panel, and we will include them in full in the record. We appreciate your submitting those statements.

I noticed in looking through some of the statements, Mr. Slinden for instance mentioned, in response to the proposal that the Secretary of Agriculture has made, that if a farmer doesn't have some idea what the support level is going to be for the next year, there is no way to make any production plans.

Mr. SLINDEN. Right.

Senator COCHRAN. If there is a reduction in January 1983, you need to know that before January of 1983?

Mr. SLINDEN. Absolutely.

Senator COCHRAN. What kind of advance notice do you think would be appropriate for any change in the support level?

Mr. SLINDEN. I think you need at least 6-months-to-a-year advance notice. You have to make your plans accordingly. For instance, I farm with my two young sons. They need the income to finance the debt that they have incurred and just a blanket price support reduction on the first of January is a difficult decision to live with. We are going to need some advance warning on that.

Senator COCHRAN. Part of this program that is being proposed by the federation is an assumption for the existence of a 5-billion-pound inventory by the Government. Is there any point, during the administration of this program, where you foresee the Government being able to accumulate less than that amount? Not only is there the assumption that the Government will have that large amount of surplus on hand, but the cost to the Government is projected to continue high in the third or fourth year of the program. The cost to the Government is projected to continue at about $1 billion. This is several years after the proposal is implemented.

Is there any condition that you foresee under this program where the Government's costs would be reduced to lower levels than that?

Mr. HEALY. Mr. Chairman, I can respond to that.

First of all, we didn't make the assumption that the Government should hold 5 billion pounds. The 5 billion pounds is derived from the fact that we import 2.4 billion pounds milk equivalent which we do not believe should be taking place. In addition to that, for other programs, in response to other public policies, the Government needs about 2.6 billion pounds milk equivalent to meet their commitments to the poor, to the children, and so on.

I think pretty basically the 5 billion pounds fits well into a signal that we thought we got last year when the Congress debated the farm bill, that it wanted to keep its costs under a billion dollars. The numbers that you have there, as Mr. Barker pointed out, relate to the expected cost without the incentive to reduce production which have been built into the plan. We would expect that by the end of this 3 years the surpluses would have just about been wiped out.

From the standpoint of milk producers, we want the Government to have none. We want the market to be able to operate above the support levels so that the forces of market can improve prices to farmers and all through the chain of distribution. We make no plans to keep the Government in the purchase business. As a matter of fact, this whole plan is designed to get them out of it.

Senator COCHRAN. What protection do you contemplate the dairy farmers will have in areas of the country where they have not had increases in production being afforded by this plan. I hope they are not penalized or discriminated against because of overproduction in some other areas?

The reason I ask that question, to qualify for full price support, you use as a basis the amount of the previous year's production by that farmer which means that, if he doesn't make a reduction, he gets less than he would have gotten, in effect, being penalized with this blend price. I wonder about the farmers in Nebraska. I notice Mr. Flynn is from Nebraska. I don't know about the increases in production that occurred in your area. What do your farmers think about that?

Mr. FLYNN. We would certainly be affected by the plan. We would have to make adjustments for the coming years. In our particular State, we have not had as much growth. We are not a significant milk-producing State. We need enough milk to supply our local needs so we don't have to ship it in. That is where planning would be helpful.

Senator COCHRAN. What happens if farmers cut back 10 percent, some less, some maybe more, and we still have a surplus?

Are you going to have a second round and farmers have to go back and make further reductions? Does he have to reduce production again to be able to receive the full price support?

Mr. Healy?

Mr. HEALY. First of all, we believe the program will work to bring about equilibrium between the supply of milk and the demand for it. If it does not, if farmers do not respond to it, or if having cut production they raise it again, the costs of the program will be borne by the dairy farmers. In this plan which is before you, we have the only absolute cap on taxpayers' involvement in the dairy price support program. We know exactly what it is to cost the taxpayer. If the farmer does not respond as we feel certain he will, then he must bear the additional cost of the program. And he knows that. This is not something that has just been developed in a smoke-filled room. This has been taken out to country meetings and the farthest reaches of these cooperatives. The farmers of this Nation really know how it operates. They support it and know what is expected of them under it. I think it will work. If it doesn't, the burden will fall upon those who fail to allow it to work.

Senator Cochran. Part of your program is an aggressive marketing effort, not only here in the United States, but an effort by getting rid of the surplus or making donations abroad. We have this general agreement on tariffs and trade that people refer to as the GATT agreement that Secretary Lyng referred to having been negotiated by the previous administration. It set certain quotas and commits the United States to certain obligations. How do you get around to the commitments that we made and the limitations to our capacity?

Mr. Healy. The only specific GATT agreement as regards milk is the so-called International Dairy Arrangement under which the signatory nations agree not to put product on the market at less than agreed-to prices. Those prices were set when world prices for milk were so ridiculously low that they don't come into account. The powder price on the world market is something like $925 to $950 today. That is the only specific limitation that exists. Furthermore, our Government has an abhorrence of the establishment of export prices through subsidies. Any surplus milk collected under this plan would have been paid for at about $1.50 a hundredweight for milk on the farm, so there would be no subsidy involved in putting it on world markets—absolutely none.

We have studied this very carefully. We talk about it much more carefully than some other people do and there is nothing inherent in this plan or in anything that might be done under it which would violate any international arrangement to which the United States is a party—nothing.

Senator Cochran. I must state at this point I think you are to be commended and congratulated because of the efforts you are making and the response the industry is making to the problem that does exist. As a matter of fact, I think many people have been surprised that the industry has shown the initiative and willingness to work on a proposal that is designed to reduce the cost of the dairy program and to do something about production.

There are some features of it that you can tell by my questions I am still a little concerned about. I think some of the farmers in the country may be concerned about. Maybe it is because they do not fully understand it. Maybe their concerns are legitimate. I think the committee is certainly going to analyze this proposal very carefully. Senator Boschwitz is introducing it today. We will hear from the next panel which will be discussing the second aspect of the proposal which is a promotion that is involved in the legislation and I am anxious to hear that described in a little more detail.

I do not have any other questions. Some may occur to us. Some Senators, who have to be in other places, may submit some. I hope you will comment.

Mr. Barker. I will be happy to receive those.

Mr. Gaebe. I am from New Salem, N. Dak. I am a farmer and dairyman. My wife and 13-year-old son are at home milking cows so I could be here today. When I talked with them last night, they told me I did not tell them which ones kicked. We have a problem. If we can help rectify this problem, we have something going for us and we strongly support the Andrews-Boschwitz bill.

Senator Cochran. I will pass that characterization on to Senator Andrews. Thank you.

Mr. **Flynn**. I am W. E. Flynn. I spoke just a moment ago, Mr. Chairman. I would like to briefly mention that I, too, am a family farm representative. When we speak of the family farm, I work the farm with my three brothers. We are the fourth generation supplying milk in eastern Nebraska. We are firmly entrenched in the dairy industry. I am thoroughly in favor of the dairy products promotion bill to be presented and the dairy stabilization program. As a dairy farmer, even though I realize that this program will reduce my gross income, I feel that we are offering an opportunity to the Government to reduce the Federal expenditures by over $1 billion and we are willing to undertake this program. As dairymen, we feel we are producing high-quality, essential food for the markets of the Nation, and I think with our dairy promotion programs, our nutrition programs we are touching base on some very important areas. Nutritional deficiencies know no age, and we are striving to do the best job of bringing proper nutrition to this country. I thank you for this opportunity.

Senator **Cochran**. Thank you.

Mr. **Erdman**. I am Myron Erdman, Chenoa, Ill., also a family dairy farmer in partnership with my son. My two daughters are married to dairy farmers. It is quite a way of life.

We are concerned about overproduction. What disturbs people that I talk to is we do not get a chance to help ourselves. That is what we are after. This plan gives us a chance to help ourselves. That is what it is all about. We are all scared of the word "base plan" and the two-tier price system kind of passes over it. This is important. We have to have an incentive. If we lower milk another dollar—I am in the soybean area, too, farmers are not going to cut back. That has been brought out very clearly here today. I think it is very important that this go into the record. This is not a way to cut production. We have to have some type of incentive. This is why I support the price stabilization program. Nobody is more aware than this committee that, if we have a good economy in agriculture, the whole Nation will follow through. It is basic. Most of our people feel that way, most of us.

Senator **Cochran**. Thank you very much.

Mr. **Healy**. I have two short statements from Mr. Walter Martz and Mr. Elwood Kirkpatrick that I would like to file for the record.[1]

Senator **Cochran**. We appreciate having those, and they will be made a part of our record.

Our next panel will be: James P. Camerlo, Jr., vice president, National Milk Producers Federation, Florence, Colo., accompanied by Patrick Healy, executive secretary; and Professor Stan Thompson, Michigan State University, East Lansing, Mich.

I understand Mr. Camerlo will be the spokesman. We have the statements. Dr. Thompson's statement has been submitted. Those will be made a part of the record.[2]

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[1] See p. 166 for the prepared statement of Mr. Martz and p. 169 for the prepared statement of Mr. Kirkpatrick.

[2] See p. 171 for the prepared statement of Mr. Camerlo and p. 189 for the prepared statement of Dr. Thompson.

We invite you to make any summary comments or highlights of those statements that you would like.

STATEMENTS OF A PANEL CONSISTING OF JAMES P. CAMERLO, JR., VICE PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION; ACCOMPANIED BY PATRICK HEALY, EXECUTIVE SECRETARY; AND DR. STANLEY R. THOMPSON

Mr. CAMERLO. Thank you.

I am James P. (Tom) Camerlo, a dairy farmer from Florence, Colo. I am first vice president of the National Milk Producers Federation and president of Mountain Empire Dairymen, a dairy cooperative marketing association owned by dairy farmers in Colorado, Wyoming, Idaho, and Nebraska.

My comments today will be directed toward the national dairy products promotion program. I would like to associate myself with the testimony given by Norman Barker. The dairy stabilization program, outlined in his statement, is a program designed to meet the basic needs of dairy farmers, Government and the consumer.

As one who has been active in the development and implementation of dairy promotion programs, I have long felt the need for a coordinated, national program of promotion aimed primarily at manufactured dairy products. These products represent the market for over one-half of our milk supply and, thus, are a major factor in the success of every dairy farmer in the Nation.

The legislation before you today provides the vehicle for the development of such a program. Through a 5-cent per hundredweight assessment on all milk marketed, dairy farmers would jointly finance promotion efforts that would deal primarily with the manufactured products. Through the first 2 years of the program, the total concentration would be on these products.

There is substantial evidence that these programs are effective. Dr. Truman Graf at the University of Wisconsin has estimated that an investment of $1 in the promotion programs returns the dairy farmer $2.20. Research by the USDA during the 1970's showed the very strong potential of programs aimed specifically at butter and cheese. The measured results of the "Slice of Life" cheese promotion campaigns conducted by the dairy industry during the past two fall seasons bears out the results of the USDA research. Market surveys indicated a total cheese purchase increase during the 3-month campaign in 1980 of 15 percent over the same period in 1979. When the program was repeated in 1981, there was an additional, though marginal, increase. In total, 1981 sales in tested markets were 16 percent above 1979 levels.

There are several points regarding this specific legislation that should be discussed: First and most important, the program would require participation by all dairy farmers. Some have suggested that programs of this type should be voluntary. But experience within the dairy industry has demonstrated that the most effective programs are those supported by all farmers. There is strong precedent for such programs. As the table attached to my statement indicates, 51 percent of the Nation's milk supply is now covered by full support, mandatory promotion programs either operated under State law or developed through cooperative associations.

As a matter of equity among farmers, all should participate as all will reap the benefits. In the promotion of brand-name products, the decision to advertise or not to advertise affects only the product of a particular producer. With generic advertising, the impact is much different. Nonparticipation affects the whole promotion effort as less money means reduced opportunities to increase consumption.

The program is not intended to replace or diminish existing programs. In fact, I would envision that existing agencies would be used to carry out the additional promotion efforts. The national dairy promotion board that would be responsible for directing the operation would be in a position to review proposals and to develop a coordinated national effort that not only expands the industry's promotion efforts but makes them more effective.

Not only would increased funding be available for these efforts, they would be directed toward the full range of dairy products.

For many dairy farmers, the cost of the program will be in addition to substantial contributions they are already making to promotion work. In my own case, I already provide approximately 16 cents per hundredweight to State, regional, and national programs.

The provision to allow the cooperative to vote on behalf of its membership in the producer referendum is sound. The cooperative is the marketing arm of the producer. Policy decisions taken within the organization are made by the board of directors elected by their fellow farmers. As added assurance, provision is made to require the cooperative to inform the membership of how the vote was cast and also to provide information as to how the individual farmer may cast an individual vote should that be desired. Thus, every farmer is assured the right to vote in the referendum.

While promotion is an essential effort at any time, the fact that expansion of dairy product consumption would reduce the purchases of the CCC should not be ignored. According to USDA research estimates, such a program could expand consumption by 2.9 billion pounds milk equivalent. This would mean a savings under current conditions of $460 million in CCC costs. In other words, if we increased the milk consumption just over one glass of milk per capita per week, there would be no added surplus.

The national dairy products promotion program is a natural compliment to the dairy stabilization program. This will offer farmers the opportunity to work together to maintain and expand their markets. At the same time, this will help bring about the necessary supply-demand balance. On the other side of the equation, the dairy stabilization program would operate to reduce Government costs and bring about the necessary production adjustment in a rational fashion that meets the needs of the individual dairy farmer.

I say, again, 51 percent of the Nation's milk supply is now covered by full support mandatory promotion programs, either operated under State law or developed through cooperative associations. As a matter of equity among farmers, all dairy farmers should participate.

Thank you, Mr. Chairman.

Senator **Cochran**. Thank you, Mr. Camerlo.

You mentioned that this promotion effort is designed to be complimentary to the stabilization program that was described previously. What if the committee doesn't approve, as you proposed it, the stabilization program? Would you still want to go ahead? Would you feel the promotion effort is indicated whether or not the dairy price support program is changed?

Mr. **Camerlo**. I think, Mr. Chairman, they compliment each other; and to really solve the problem, we must have both.

Senator **Cochran**. I understand that.

Mr. **Camerlo**. To answer your question, yes, I think it should go forward, regardless.

Senator **Cochran**. I mentioned I was visiting with some dairy farmers in my State Saturday night. During a discussion period of the various proposals that have been presented to the Congress, I asked them for input and suggestions, observations and comments about the various suggestions. A few suggested they didn't like the ideas of co-op blocks voting the membership, but you have described a situation where every farmer would be able to cast a vote. Is this in the case where the individual disagrees with the way the co-op is voting in his behalf?

Mr. **Camerlo**. Yes; that is the intent.

Senator **Cochran**. It is not a referendum that will solicit a vote from every dairy farmer, but only those farmers who disagree with the decision of the co-op will vote and then the co-ops will block vote; is that right?

Mr. **Camerlo**. No; Mr. Chairman, I can't quite agree with that. For example, the board that I am president of the cooperative, we have talked to our farmers at district meetings. We have been around the field. We asked for their input and thoughts on it and their thoughts about block voting. We received their consent to do it this way, so we think it is their vote telling us to go forward this way in our areas. It is a grassroots thing.

Senator **Cochran**. I understand. There were farmers at the meeting I was at who spoke out in favor of the block-voting concept. I am trying to get on the record the details of how the farmer would go about exercising his right to vote if he disagreed with the vote of his co-op.

Mr. **Healy**. Mr. Chairman, we contemplate providing that, if the co-op elects to use its right to vote on behalf of its membership—it is not required that this be done—then it must inform each member of the issues. It must inform each member as to how it voted on his behalf. It must provide him with information as to how he can cast an individual ballot should that be desired, this would negate the co-op vote for him, and replace it with a vote different from the way the co-op voted. This is the so-called Minnesota system which has worked pretty well. It allows the co-op to use what is essentially a marketing tool, but still allows each member to differ with the co-op and provide him the tools to express his difference if he chooses. The referendum agent having received a ballot from a farmer—let us say a no-vote ballot from the farmer—would add one vote to the "No" side and subtract one vote from the cooperative's vote. We think we have balanced that off very well.

Senator COCHRAN. One question that has arisen which was communicated to me in advance of the hearing relates to the mandatory feature of the promotion plan, the mandatory payment of the 5-cent checkoff. There are other kinds of promotion efforts. I think the wool growers have one, the beef cattle producers have one, the egg people have one and there are others.

Have you looked at these other commodity-checkoff programs? Your suggestion differs from most of those, if not all of those, in this particular mandatory feature. Why do you feel that that would be appropriate in this instance rather than a situation where the farmer could ask for a rebate of his 5 cents if he is disgruntled or doesn't want to participate?

Mr. CAMERLO. We are in promotion. We do have 51 percent of dairy farmers in the United States now under a mandatory program. If the program is not mandatory, we feel or at least I feel that it would be a step backward, a step in the wrong direction. My particular cooperative, the board of directors—it is unanimous, it is either a mandatory program or we don't want any part of it. That is how strongly we feel. We have looked at the other programs. But what we are maintaining and testifying to is a program that will work to the best interests of the dairy farmers and the dairy industry in the United States. We think it will really work.

Senator COCHRAN. Have you made any estimate of how the $65 million annually from this program will be used? How much would go into overhead cost, how much would go into advertising? Have you made a breakout of that?

Mr. CAMERLO. No. In our concept paper we discuss this. There are enough existing agencies advertising our products today that hopefully the board would use these and we have suggested this as our intent. The board would use the existing structure of agencies available to them and there would be very little overhead. This would not have a lot of bureaucracy and overhead cost.

Senator COCHRAN. You mentioned you had 51 percent of the farmers under a mandatory program for promotion anyway. How do you mesh the new checkoff money into the existing promotions being made? Do you go to the markets where you are not advertising now and take up the slack. How do you propose to use the money?

Mr. CAMERLO. The money would be used for the promotion of hard products, nationally, across the country.

Senator COCHRAN. Meaning nonfluid milk?

Mr. CAMERLO. Basically, cheese and butter. Our studies indicate we can do more and achieve results more quickly advertising cheese and butter. As far as generic advertising, we have spent little on cheese and butter. Basically, our advertising money has gone to fluid milk. This is a new area. We can benefit dairy farmers on this.

Senator COCHRAN. We are going to have another day of hearings. We may hear some other opinions. Have you run into any early indication of opposition from folks involved in promoting a brand name of cheese and butter at this point? Or are you going to run headlong into a controversy with them?

Mr. HEALY. The one thing we have heard from them is that they would like to, at some point, have matching fund programs with this. So far at least early on in the program we want to try it on our own for a while. If it does prove to be successful, perhaps that will work into it in the future, but the handlers and distributors of dairy products have approached us asking that we do develop some kind of matching fund program where they put up part of the funds and we do. It is a joint approach.

Senator COCHRAN. We appreciate very much having the program described to us.

Dr. Thompson, we have your statement. We have included it in the record.

Do you have any comments or observations that you would like to make?

Dr. THOMPSON. I have some comments that may take 2 minutes.

Senator COCHRAN. Proceed.

Dr. THOMPSON. My name is Stanley R. Thompson and I am employed as an associate professor of agricultural economics at Michigan State University, East Lansing, Mich. My purpose today is to summarize some recent research results on the economic effectiveness of nonbrand fluid milk media advertising. The following is a synopsis of a recent investigation into the effectiveness of producer supported milk advertising in 10 U.S. milk markets.

Nine Federal order markets and one State order market were analyzed: New England, Middle Atlantic, Georgia, southeastern Florida, southern Michigan, Greater Kansas City, Upper Midwest (mainly Minnesota), eastern Colorado, great basin (mostly Utah), and the State order part of Virginia. In most of these markets, complete monthly data were available and statistically analyzed for the 5-year period, 1975 to 1979. These data included: Fluid milk sales, actual nonbrand fluid milk advertising expenditures, consumer income levels, retail milk prices, market population estimates, market consumer price indixes, television and radio advertising cost inflation indixes and, for many markets, soft drink prices and an estimate of the dollars spent on competitive soft drink advertising.

The research method used incorporated the above information to sort out the influence of advertising on the demand for fluid milk when seasonality and the other listed factors were taken into account simultaneously. The analytical technique was capable of not only "netting-out" the current effect of advertising on sales, but also generating estimates of the total or carryover effect of advertising.

A basic objective of this study was to estimate the responsiveness of sales to advertising in each market. The results showed that in each of the 10 markets, fluid milk sales increased as dollar expenditures for advertising increased. When all other factors affecting milk sales were held constant, the 1979 average 10-market sales increase due to advertising was 3.6 percent. This means that during 1979, milk sales were an estimated 3.6 percent greater than they would have been if no nonbrand advertising had taken place.

Next, the estimated sales gain was placed in "farm value" terms according to the price structure in each market. Taking account of this price structure, together with the estimated increase in fluid milk sales, the farm value of the sales increase due to advertising was determined. The actual media cost of advertising was then subtracted from the farm value of the sales increase. Although net returns varied among the markets, in all 10 markets the value of the increased sales due to advertising exceeded actual media cost.

With regard to the exact return dairy farmers received for each dollar invested, the findings of this study showed that the 10-market average return per dollar invested in direct media advertising in 1979 was $2.20 for each dollar invested. This represents a 120 percent average return on investment.

The findings of this study support the position that the dairy farmer's demand expansion efforts during 1975–79 increased fluid milk sales and that the value of the increased milk sales exceeded the cost of the promotion of milk sales.

I have one other statement to add about the mandatory nature of this. I have some degree of experience with the other programs. My conclusion is not withstanding the many reservations that one may have regarding the procedures used with the mandatory program, the free-rider problem makes the mandatory nature of such an effort necessary for the very existence of this program. In other words, to enable effective program planning, a known budget over a given planning time horizon is required. To not know what you are going to have next year makes it difficult to plan effective promotion efforts.

Senator COCHRAN. I am glad to see in your statement these equations in here. I don't know anybody on the committee who is going to be able to understand those. That is why we have staff to interpret those for us. We appreciate your being here and adding to the testimony and your description of the experience you have had in this test market and your observations about your time lag and other problems as justification of the mandatory nature of the program. If you have no other comments, I think we will move on to the next panel.

Do you have some additional statements for the record?

Mr. HEALY. Two, one from L. E. Larson from Okeechobee, Fla., and one from Lloyd H. Patterson of Vermont.[1]

Senator COCHRAN. We will make those a part of the record. Thank you.

[The following letter in response to questions from Senator Leahy was received by the committee:]

NATIONAL MILK PRODUCERS FEDERATION,
Washington, D.C., June 23, 1982.

Hon. THAD COCHRAN,
Chairman, Subcommittee on Agricultural Production, Marketing and Stabilization of Prices, Committee on Agriculture, Nutrition and Forestry, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Enclosed are responses prepared by the Panels of witnesses which appeared on behalf of the National Milk Producers Federation at the Subcommittee hearings on May 27 in response to the questions which Senator Leahy submitted following the hearing.

Sincerely,

PATRICK B. HEALY,
Secretary.

Enclosures.

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[1] See p. 180 for the prepared statement of Mr. Larson and p. 182 for the prepared statement of Mr. Patterson.

QUESTIONS FOR PROMOTION PANEL AND ANSWERS THERETO

Question 1. Have you made any projections as to the increase in consumption we might expect from such a promotion effort?

Answer. The Federation has made no independent estimate of the impact of such a program. In the mid-1970's, the U.S. Department of Agriculture's Economic Research Service published the results of research conducted to determine the potential of such promotion programs concentrating on butter and cheese. Updating the findings of this study to reflect increased costs of conducting such a program indicates that a program funded at an annual level of about $65 million has the potential of increasing consumption of these products by 2.9 billion pounds milk equivalent.

During the past two fall seasons, the American Dairy Association has conducted a special promotion program on cheese. Market surveys were conducted to measure the effect of these efforts. In 1980, cheese sales during the promotion period increased 15 percent from the same period in 1979. In 1981, that gain was maintained and an additional, though marginal gain was registered. In total, cheese sales during the 1981 promotion period were 16 percent higher than 1979. These results very closely parallel the expectation of the USDA studies cited above.

Question 2. How would this promotion effort compliment those efforts that are already ongoing?

Answer. The effort envisioned under the National Dairy Products Program is not intended to supplant or to replace present efforts. It would operate in conjunction with existing programs, providing a strengthened national effort.

It would, in fact, be complimentary to existing programs. In the first place present efforts are concentrated primarily on fluid milk promotion. This program would be directed primarily toward manufactured milk products. In fact, the entire effort during the first two years would be directed toward these products. Thereafter, the producer Board directing the effort would have the option of considering proposals dealing with fluid milk promotion, however, the emphasis would continue to be on the manufactured product. This being the case, the program will provide more complete coverage of the full range of products produced and marketed by the industry.

It is also envisioned that the promotion efforts funded by the program would be conducted through existing agencies. This would allow a strengthening of present state or regional programs and enable them to do a more complete job.

Question 3. Are dairy farmers in support of such an effort?

Answer. Yes. Over the past six months, the concepts involved in this legislation and the legislation itself have been the subject of detailed discussion within the Federation and its membership. Through these discussions, dairy farmers have voiced overwhelming support for the plan. On three separate occasions, the program has been reviewed by the Federation Board of Directors. The vote taken at each of these meetings has been unanimous in support of the program.

QUESTIONS FOR MILK PRODUCER PANEL AND ANSWERS THERETO

Question 1. What kind of administrative machinery would you expect to set up if the National Dairy Board were established?

Answer. The administrative structure supporting the National Dairy Board would be minimal. The program concept calls for maintaining Dairy Price Support Program operations in their present form. The Department of Agriculture would continue the purchase program through the Commodity Credit Corporation. This would include storage and inventory management operations. The Department would also continue to provide grading and inspection services on a cost basis as they do at present.

Existing agencies, State and County ASCS Committees, Federal Milk Market Order Administrators or the administrators of state milk marketing programs would be utilized in processing requests for incentive refunds or payments.

The new administrative structure would thus be only that directly supporting the functioning of the Board as it develops its estimates of program costs and carries out its responsibilities relating to the disposition of dairy product stocks.

Question 2. What size staff do you expect you would need?

Answer. Staff needs would be minimal although an exact estimate of numbers is difficult. The primary area where professional staff would be required would be in carrying out the stocks disposition responsibility. Even here, it is envisioned that the capabilities of the private trade would be used to the maximum possible extent.

Question 3. Have any arrangements been made to work with state and local officials?

Answer. At this time, no specific arrangements have been developed. The legislation does provide that the State and County ASCS Committees, Federal Milk Market Administrators and the administrators of state milk marketing programs are to be utilized in implementing the production reduction incentive element of the program. Of course, state and local officials would continue to be responsible for dairy farm inspections and related activities.

Question 4. As I understand it, levies on overproduction would fund Dairy Board operations. What would happen if overproduction ceased?

Answer. Cost of the National Dairy Board would be borne by dairy farmers through the reduced price support on milk produced in excess of market needs. The purpose of the entire program is to restore the needed supply-demand balance to the industry. During years of program operation, funds would have to be developed to assure that in times of non-surplus, the costs of the Board would be met. Of course, the activities of the Board during those periods when supply and demand are in balance would be minimal and, therefore, costs would be quite low.

Question 5. As I understand, it, the National Dairy Board would get advances from the CCC which would not be due until the following Fiscal Year. If this is the case, would farmers be charged for Dairy Board deficits to the CCC even if, in that year, they had reduced production below the 5 billion pound surplus cut-off?

Answer. The program provides that any costs experienced in excess of the cost of removing dairy products equivalent to 5 billion pounds of milk from the market will be borne by dairy farmers. Insofar as possible, the producer responsibility under the program would be met in the same year that it was incurred. The provision allowing advances to the Dairy Board by the CCC is intended to assure availability of funding on a continuous basis in the event that program cost estimates and the resulting producer contribution fell short of needs. The provision that such advances be repaid in the following fiscal year is meant as an assurance that they would not be carried forward any farther than that. Through an adjustment of the assessment rate, the Board could provide for repayment within the year the advance was made.

In the event that an advance had not been repaid, dairy farmers would still be liable for it even though production had been reduced and CCC removals were estimated at less than 5 billion pounds milk equivalent.

Question (6). What plans have you made with regard to dairy exports?

Answer. S. 2587 would allow the National Dairy Board to make products available for overseas food aid through existing agencies. In addition, it would permit sales of product to foreign governments and agencies of foreign governments or to private firms and individuals for export. The food aid programs would operate as they do at present with the Dairy Board arranging for transfer of product from CCC stocks to P.L. 480 or other operations.

In the case of commercial transactions, the facilities of the private trade would be used to the greatest possible extent. This would avoid creation of a sales structure by the Board. Normal competitive forces would also assure that this approach would offer the best possible return for product made available and would tend to be more productive in seeking out markets for product than a sales agency created by the Board.

While it is not spelled out in the legislation, one approach that could be used would be to make product available for sale for export on a bid basis. This would assure all parties with a bona fide interest and export capability the opportunity to participate in the program.

Question (7). What is your view of the administration proposal?

Answer. The National Milk Producers Federation and the dairy farmer members of its member dairy cooperative marketing associations are unalterably opposed to this plan. The total discretion sought would give the Secretary of Agriculture the ability to determine whether or not there would be any effective price support program at all. Given the pressures exerted due to budget limitations, foreign policy, and international trade and other considerations, the dairy price support level could easily be determined on a basis other than what is necessary to assure the production of an adequate supply of milk.

Question (8). What is your view of the Barber proposal?

Answer. The Barber proposal seeks to bring about the needed adjustment in milk production by concentrating the proposed price reduction totally on milk used in manufactured dairy products. It would maintain the price for milk in fluid products at present levels. It can be expected that this would have substantial appeal in areas with higher fluid milk utilization. But the market for milk and dairy products is a national market. Milk markets are no longer isolated and even fluid milk can be and is moved substantial distances.

There must be concern that the Barber plan would be extremely divisive within the industry by seeking to bring about the needed adjustment through major price decreases in some of the major dairy production areas while producers in other regions would be affected only slightly. For instance, the plan as presented would reduce the milk price to a Grade B milk producer in Minnesota or Wisconsin by $1.70 per hundredweight (about 13 percent) whereas a producer shipping into the Middle Atlantic Federal Milk Marketing Order area would experience a price reduction of 88 cents per hundredweight (about 6 percent). This is based on 1981 data.

Too often, the view is held that milk not used for fluid consumption is surplus. The fact is that over one-half of our milk supply is used in the production of manufactured dairy products. These products are an essential element of our food supply and their prices and the price paid for the milk used in their production directly determine the price for milk in most fluid markets. Thus, the entire system is interrelated.

Question (9). What is your view of the Gunderson base plan?

Answer. The underlying concept of the Gunderson proposal is basically the same as that presented in the Federation's Dairy Stabilization Program. It seeks to maintain the proven, effective structure of the Dairy Price Support Program as a means of assuring a level of farm income that will call forth an adequate supply of milk. It would provide the dairy farmers to share, in a very direct manner, a substantial portion of the cost of the Dairy Price Support Program. It would establish a known limit on the level of the Federal cost of the program.

The greatest difference in the programs is one of mechanism. The Gunderson plan relies on a specific base or quota system as the implementing agent. This is avoided in the Federation program. The Administration has repeatedly voiced the strongest possible opposition to any base or quota system that would tend to limit entry into dairying or which could, in some manner, acquire value which would be capitalized into the cost of milk production. The Congress itself has, over the past 15 years or more, moved progressively away from rigidly structed production control programs toward programs allowing more flexibility on the part of the individual producer. During debate on the 1981 farm bill, the issues raised in connection with the tobacco and peanut programs, centered on the allotment or base systems employed in these programs.

Question (10). What kind of fees could farmers expect to pay to fund the Dairy Board operations?

Answer. As indicated earlier, dairy farmers would be responsible for the total cost of the program in excess of the cost of removing dairy products equivalent to 5 billion pounds of milk from the market. This money would be provided through the reduced price support on that portion of the milk supply determined to be excess to domestic commercial market needs. Thus, the impact of the program would be concentrated directly on the problem—the excess milk supply.

Projections of 1983 program operations were included as part of the statement of Mr. Norman Barker, President of National Milk Producers Federation. These indicate expected 1983 removals of 11.9 billion pounds milk equivalent at a total net cost of $2,121 million. The Federal responsibility under the program would be $792 million, leaving $1,329 million that must be provided by dairy farmers. Assuming that there were no dispositions of dairy products removed from the market other than through Federal nutrition and other donation programs, all of this money must be provided through the reduced price support on the excess milk. This would mean a reduction of $11.17 per hundredweight in the farm value of the 11.9 billion pounds of excess milk.

These estimates do not include the expected impact of the production reduction incentive. To the extent that dairy farmers respond with reduced marketings, the producer cost of the program would be reduced and those producers who made reductions would be eligible for refunds of the reductions made in their milk checks. Thus, the program would concentrate its impact on those making no reduction. Also, to the extent that income is realized on sales of dairy products, this money would be available to reduce program costs to producers.

Senator **Cochran**. Our next panel consists of dairy producer groups. We have here with us this morning Timothy Mogan, dairy division manager, Kyana Division, Dairymen, Inc., Louisville, Ky., accompanied by Buckey Jones, dairymen member, Dairymen, Inc., Smithdale, Miss.; and Wiley Shore, dairy farmer, Yadkinville, N.C.; Jack Ortego, representing the Southern Milk Sales, Washington, La.; Stewart Huber, president, Farmers Union Milk Marketing Cooperative, Madison, Wis.; and Irvin Elkin, president, Associated Milk Producers, Inc.

We welcome all of you and we appreciate your being here. Each of you has submitted a statement, which we appreciate. Your statements will be made a part of the record.

I will ask Mr. Mogan to start off and make any summary comments or observations that he would like to make, and then we will call on each member of the panel for a statement.

STATEMENT OF TIMOTHY MOGAN, DAIRY DIVISION MANAGER, KYANA DIVISION, DAIRYMEN, INC., LOUISVILLE, KY.

Mr. MOGAN. I am Timothy Mogan from Finchville, Ky. I am manager of three Dairymen, Inc., divisions in Kentucky. I appreciate this opportunity to present testimony on basic dairy policy issues being considered by the committee. I work with farmers regularly on a regular basis. It has been my job to talk to these farmers about these programs.

Dairymen was built and developed by farmers to assist them in the marketing of their dairy products. They said we need an overall program. The way to do it is go do it and get it done. They turned over the fluid marketing to the co-op. We handle the fluid. We handle the marketing of milk.

The dairy farmer owners of Dairymen, Inc., have developed their cooperative on the basis of providing a full range of marketing capability throughout the Southeastern United States. While this region is normally considered primarily a fluid milk producing area, the manufacturing operations of the cooperative are an integral and essential part of the cooperative. Through these operations, farmers are assured a market for that portion of their milk not needed by the fluid market. This also assures the regional availability of manufactured dairy products to meet consumer needs.

I support the recommendations for amendment of the dairy price support program as contained in the dairy stabilization plan. This will maintain the basic integrity of the price support operation which is essential to all dairy farmers while providing an opportunity for rational production adjustments to bring about a balance between supply and demand. Perhaps most important, this will immediately bring Government costs in line with budget restraints.

The national dairy products promotion program will provide authority for a needed addition to current industry efforts to maintain markets for milk and dairy products. Dairy farmers are presently maintaining promotion programs under a range of cooperative and State programs. The bulk of this effort, however, is directed toward fluid milk products. Specific efforts on manufactured products have, for the most part, been of a special nature such as the "Slice of Life" cheese promotion programs conducted during the fall months of 1980 and 1981.

The success of these efforts demonstrates the potential for sustained programs in these areas. But to be effective, such programs must be adequately funded and provided on a continuing basis. The 1980 "Slice of Life" program produced results that bore out the findings of the market research conducted by USDA in 1972 and

1973 to determine the potential of advertising and promotion programs for manufactured dairy products. Market research indicated that total cheese purchases during the 3-month period was increased by 15 percent over the same period in 1979. This was well in excess of the 10-percent increase targeted at the beginning of the program. When the program was repeated in 1981, the gains realized the year before were maintained and an additional, though marginal, gain was realized. In total, 1981 sales during the campaign period were 16 percent higher than during 1979.

This legislation would provide the opportunity for dairy farmers, working through the Secretary of Agriculture, to develop a program for such promotion programs on a continuing basis. Funding for these efforts would be provided by farmers themselves through a uniform 5-cent-per-hundredweight assessment on all milk marketed.

This would be a program controlled and directed by the dairy farmers themselves. Several safeguards are incorporated into the legislation to assure this. Most obvious, of course, is the fact that the national dairy promotion board would be composed of dairy farmers. The requirement that the composition of the board reflect the geographic distribution of milk production across the country also assures that representation on the board reflects the various regional interests and concerns.

The program would not go into effect unless approved by dairy farmers themselves voting in a national referendum. Thus, the operation would be a farmer-initiated, farmer-approved program seeking to advance the marketing of their production.

The authority contained in the legislation which authorizes cooperative market associations to vote on behalf of their membership assures broad participation in the referendum itself. This is not, as some have suggested, a means of providing cooperative control of the program. In Dairymen, Inc., this program has already been discussed in detail with the membership. The overwhelming majority of farmers are enthusiastic about it. They support the concept of the legislation. They have directed the cooperative management to work in support of its passage by the Congress as it has before you.

Allowing cooperatives to vote on behalf of their membership is simply recognition of a basic fact of the structure of cooperative milk marketing. Through their membership in the cooperative, dairy farmers have assigned responsibility for the marketing of their product to the cooperative. Basic decisions on the development and design of marketing programs are made by the farmer-elected boards of directors acting on behalf of the membership. The implementation of these policy actions is the responsibility of cooperative management.

Thus, at the outset, the basic structure of cooperative operations assures that the action of any cooperative voting on behalf of its membership would reflect the needs and desires of its membership. The requirement that the cooperative individually inform the membership of how the vote was cast in the referendum and the reasons for the action assures that full information will be available in this regard. By going one step further and requiring that any member desiring to do so can cast an individual ballot assures complete participation in the referendum. It also assures every dairy farmer the opportunity to express their individual desires.

In the development of the legislation, several additional safeguards have been incorporated.

First, the Secretary of Agriculture can terminate or suspend the program at any time if he finds that it does not meet the stated purpose of the legislation. The Secretary also has the authority to call for a new referendum if he feels it is necessary to determine whether or not dairy farmers continue to support the program.

Dairy farmers themselves would have the opportunity to bring about a referendum of reaffirmation. The legislation requires the Secretary to hold a new referendum to determine whether or not the program should be continued if a representative group of 10 percent or more of the dairy farmers request such an action. A final assurance that the program would be maintained consistent with the needs of the dairy farmers is the requirement that the Secretary conduct a new referendum to determine if producers continue to support the program within 5 years after its initiation.

In any of these referenda, a simple majority would be required to approve or disapprove the program.

The proposed national dairy products promotion program is a logical, necessary element of the overall dairy policy picture. It would provide the means of expanding present promotion efforts to provide continuing, effective efforts to maintain and expand farmers' markets. It would, through those efforts, help to restore the supply-demand balance within the industry.

As far as the block voting is concerned, I listened today in this hearing, and this is not on the record, the only thing that has been talked about this morning other than milk is the budget and the financing. Maybe we should take the easy way out and turn the budget over to all the citizens of the United States and vote on it. We wouldn't get a budget. We know it is suicidal. Milk farming is like that.

They have said you develop these programs. We hired you as leaders the same as we elect our Senators and Congressmen. It is a good system and it works.

As far as the individual not contributing to the program, I heard two typical answers at different producers meetings. A farmer came up to me and said, I don't mind paying when I am going to church and putting money in the collection box and the other fellow comes to church and does not pay, but this is business. The farmer who doesn't pay will reap the harvest just like I do, and he ought to pay just as I do.

The second fellow said, You know, if we can't have a referendum where everybody has to pay, then maybe I ought to have a right to get my taxes back. It is a business proposition. Everybody is going to have to help. We got ourselves in this trouble by ourselves. We have got to get out by ourselves.

We support the program. It is a good program. We appreciate the committee's efforts to work on our behalf. You could take the easy way out and turn it over to the Secretary and go home, but you are taking the right way and the long way.

Thank you.

Senator COCHRAN. Thank you.

Mr. Jones.

STATEMENT OF BUCKEY JONES, MEMBER OF THE BOARD OF DIRECTORS, DAIRYMEN, INC.

Mr. JONES. Thank you, Senator.[1]

It is a pleasure to be here. I assure you this dairy farmer feels out of place here.

Senator COCHRAN. You look good.

Mr. JONES. I feel like I should come and have something to say if our indistry is in such dire need of leadership as it seems to be.

Most of my comments will be pointed to the promotion program. I would like to say one thing before I get into that.

It has been said many times here this morning that when in 1977 we gave the signal to the dairy farmers out there that we were going to increase their price and this signal that we gave the dairy farmer is what caused all this circus. I will assure, sir, that if you give the Secretary of Agriculture the discretion to set the price of milk at any place he wants it, you will send a signal out there to those dairy farmers so that you won't have enough milk before next week. That is because we just can't live under those circumstances.

Every time you pick up the paper, every time you turn on TV, you hear the Secretary downing the dairy industry. We do not have a dairy problem as such. We have an agricultural problem, as you well know.

The Mississippi Delta is one of the richest agricultural areas in the United States, and yet when you go there and see the circumstances as they are, and I know you know about that, half of the farmers, I mean good farmers, are looking to the FHA, to the Government, for financing, and you pick up the paper on Sunday morning and see that 56 percent of those are delinquent in payments.

We have an agricultural problem. It is not just a dairy problem. It appears to be a dairy problem because the figures show expenditures by the Government.

We are trying to help ourselves. We are not a bunch of freeloaders, and you know it. We want to help ourselves. We hear the administration talk about initiative from the private sector. This is what this is. I think whenever you get a group that wants to do something for themselves, or come up with a program, we should look at it and see if it will work. As I said previously, my main comment is directed toward the national dairy production promotion program. I think it is a good program. I think we need it.

You may say, why I, from Mississippi, would be in favor of the promotion program that would promote class II or hard products if you want to call it that? I can tell you why—because the whole pricing system of dairy products is established on these hard products, so even though Mississippi, my home State, has very little cheese and powder for sale, our entire price structure is based on those products.

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[1] See p. 184 for the prepared statement of Mr. Jones.

We have talked about mandatory-volunteer checkoff and I can tell you from experience about voluntary programs in our State, we have a lot of programs in which to participate. I am vice president of the ADA in Mississippi. Am I bragging? No, it is not anything to brag about if you are president of a dying and sick organization.

Why we dying and sick? Because our producers ~~have not~~ volunteered to contribute money. Only those who are members of Dairymen who have a system, and I happen to be one of them, volunteer their members on a mandatory program, if you want to call it that. Those are the only producers that contribute.

Over the last 3 years, we had 38. These are hard facts, 28 producers out of approximately 600 dairymen in the State of Mississippi who are not Dairymen, Inc., members.

Only 28 of that 600 volunteered to contribute to assist the program. I do not know how it would do nationwide. That is not my problem, but I have an idea what it will do in the State of Mississippi.

We have to have a program where everybody who gets part of the benefit must pay his share of the price. It sounds un-American that here are guys who will not be able to volunteer to do this and volunteer to do that. It is awful un-American for me to do this and pay the price and provide the benefit and he gets just as much benefit as I do without contributing one nickel. That is un-American, too.

You will find also if you delve deeply into the situation that these people who volunteer not to advertise, also volunteer not to build plants and not to contribute to major co-ops that are doing something for their farms. We are market oriented in our area. We are not producing for the Government, and yet our price structure is dependent upon Government action.

The so-called free market is a myth. There is no free market. If everybody operated under a free market, we would do just right. American farmers are first class. They are not second class. I guarantee you if everybody operated under a free market, I could take my chances too, but there is no such thing as a free market.

Someone just mentioned the European Common Market. You know and I know that we can produce dairy products cheaper than they can, but due to Government regulations, we cannot compete. But we need help and I think we have got a program with the 5-cent checkoff that I think would create some situations where we could advertise our milk, we could do something for ourselves.

I am not saying that 5 cents a hundredweight is going to solve all our problems, but it is something we can do for ourselves, and here is something that will make a great impact on our industry and that is what we need.

As a producer, I know that my responsibility as a milk farmer does not stop at my farm gate. Through an advertising program I can shoulder some of that responsibility. I feel like it should be mandatory for all dairy farmers, all those who reap benefits, should pay some of the cost. We would feel a lot better if they would pay their fair share rather than tag along and let the other guy take care of it.

I would like to thank the Senator for coming to my home State last Saturday night and coming into the lion's den to speak, because our dairy farmers are having a financial problem. I assure you, you probably well know, that we appreciate your interest and your taking the time to come home, to come to the center of the dairy industry in Mississippi and talk to the dairy farmers.

I would also like to point out that even though we had diverse opinions at that meeting, I feel sure that you are aware of our situation and we seek your support on this promotion program, and we know that we can count on you to take the road of justice.

We seek no special favors. We seek no under-the-cover things. We only seek justice for the program. It will work.

We thank you for the time.

Senator **Cochran**. Thank you for your comments.

Wiley Shore, dairy farmer, Yadkinville, N.C.

STATEMENT OF WILEY SHORE, YADKINVILLE, N.C.

Mr. **Shore**. Thank you.

I am Wiley Shore, a dairy farmer from Yadkinville, N.C. I appreciate this opportunity to present testimony on the national dairy products promotion program. I am an independent dairy producer. I guess there are very few independents here. As a dairy farmer, I just want to say that I am a firm believer in the value of product promotion efforts. A dairyman is a businessman. Part of my business is the development and maintenance of markets for the product. For too long, those of us in agriculture have taken the view that this responsibility rests with those who process or distribute our products. Certainly there is a responsibility at that level, but those firms are concerned with the promotion of brand names and maintaining or increasing the market share for the products they are marketing.

Dairy farmers have organized and developed promotion programs for milk that have been successful. Market surveys and other tests to determine the value of these efforts have indicated that such investments return the farmer about $2.20 for each dollar spent on nonbrand advertising. But most of the present effort is aimed at fluid milk products. Until the past 2 years, there has been little concerted effort directed toward the promotion of manufactured dairy products. Since these products represent the market for 55 to 60 percent of the Nation's milk supply, it only makes sense that an organized, systematic effort to develop and fund such programs be undertaken.

The concept contained in the legislation before the committee as the national dairy products promotion program would accomplish this purpose. I urge your speedy approval of this measure.

I feel very strongly that to be effective in the long term, any such program must provide for the participation of all dairy farmers. This is the only way in which such efforts can be fair and equitable to all producers. The benefits realized from the investment in product promotion will be enjoyed by all dairy farmers, therefore all farmers should share in the cost of the program. In this respect, generic advertising is different from brand advertising. With the latter, a firm marketing a particular brand of product can choose to advertise or not. Any market gains or losses flowing from that decision benefit that firm all by itself. In the case of generic advertising, the benefits flow, as I said, to all producers of the product.

Frankly, failure of such a program to provide for uniform participation among producers would create a divided atmosphere among dairy farmers. The dairy industry has had considerable experience with product promotion programs. The most successful of these efforts have been the so-called mandatory programs in which every producer has an interest. In a situation where participation is essentially voluntary, the presence of the free rider leads others to question the value of their participation.

Over time, the existence of such conditions invariably leads to reduced participation and, thus, less effective programs.

In my own case, I am in full support of this legislation but only as it provides for the participation of all farmers.

Most dairy farmers throughout the country are members of a dairy cooperative marketing association through which they market their milk. I am not. I am an independent producer shipping directly to a fluid milk handler.

Because of this, it might be expected that I would be opposed to the provisions of the legislation that allow cooperatives to vote on behalf of their members. This is not the case. Frankly, I feel the provisions of the legislation will assure broader participation in the producer referendum and also assure that dairy farmers have more complete information on which to base their decision regarding the program.

In addition, the proposed legislation would permit a member to vote as an individual if he desired.

Product promotion programs have a record of proven success. The proposed national dairy product promotion program can assist the dairy industry in responding to the current need by allowing it to develop and fund a program that fills a void in current promotion efforts.

I thank you.

Senator Cochran. Jack Ortego, representing the Southern Milk Sales, Washington, La.

STATEMENT OF JACK ORTEGO, REPRESENTING SOUTHERN MILK SALES, INC.

Mr. Ortego. I am Jack Ortego, representing the Southern Milk Sales, Inc., which is a Capper-Volstead cooperative with producer members in Texas, Louisiana, Mississippi, Arkansas, Missouri, Alabama, Tennessee, Georgia, Florida, Kentucky, North Carolina, Ohio, and Pennsylvania. All milk produced is grade A, and our primary market is fluid handlers.

Our corporate offices are in San Antonio, Tex.

I am accompanied by Steve Miller, a producer member from Mississippi.

Senator Cochran. He was part of the Lion's Den?

Mr. Ortego. Yes.

This morning, I am not prepared to comment on the checkoff program, but I have a brief statement that I would like to read at this time.

The current milk supply situation is of concern to all of our members. We hear of many proposals designed to eliminate excessive supplies by reducing prices.

The milk supply-demand conditions in the South do not follow the national trends. Our so-called excesses are needed to adequately supply the fluid market with a continuous supply of fresh, wholesome milk.

A reduction in the price of all milk would destroy the dairy farmers in the Southern States. The reduced milk production associated with depressed prices would require that additional supplies be shipped long distances to meet the Southern market requirements. Transporting milk long distances is not an efficient or economical use of our existing resources. Results would be higher prices to the consuming public and this certainly does not coincide with Government policy.

The excessive milk being produced on the national level is really a reflection of the deeply depressed agricultural conditions in this country. Depressed beef and grain prices have resulted in more dairy cows being fed more grain.

Southern Milk Sales, Inc., realizes that something will be done to reduce excessive milk supplies by lowering prices.

We propose that the class I fluid milk price be temporarily frozen at not less than 70 percent of parity and that the manufacturing milk prices be lowered to a level that would effectuate a satisfactory reduction in costs to our Government. With this type of program, producers would be responsible for the cost of excess production on a pro-rata basis. The program is easily adaptable to our very successful Federal order program and could be administered at no additional costs.

I appreciate the opportunity to come before you.

Senator COCHRAN. Thank you for being here and, Steve, I appreciate your coming, too.

We have a vote on the floor of the Senate right now. That is what all the bells are about. I have to go there and vote. I hope you won't leave me. We have two other members of the panel to hear from, and then I have some questions which I will ask.

If it won't inconvenience you too much, we will recess for a period of about 15 minutes, and then we will reconvene at about 5 after 1.

The committee will stand in recess.

[Recess from 12:50 p.m. until 1:05 p.m.]

Senator COCHRAN. If the committee will come to order, we will complete hearings from our panel of dairy producer groups and independent producers who are represented here today.

I apologize for the inconvenience and the delay. We have another vote that will occur on the floor in another 15 minutes, so it looks as though we have run right into the business that is being transacted on the floor.

We ought to be able to wrap up the hearing in the next 10 or 15 minutes.

We will hear from Stewart Huber, president, Farmers Union Milk Marketing Cooperative, Madison, Wis.

STATEMENT OF STEWART HUBER, PRESIDENT, FARMERS UNION MILK MARKETING COOPERATIVE, MADISON, WIS.

Mr. HUBER. Thank you for asking us to appear. In addition to being president, I am also a dairy farmer in my own right.

I do appreciate the lateness of the hour and the fact that you haven't had any lunch, so I am going to summarize my remarks orally.[1]

I should like to comment very briefly on Secretary Block's Emergency Dairy Adjustment Act of 1982 proposal. We think that proposal includes a number of items that we wholeheartedly endorse, particularly those dealing with the disposition of Government stocks, but we want you to understand that we are firmly opposed to the Secretary's request for discretionary authority in regard to the price support level effective January 1, 1983. We do believe that the Secretary should have discretionary authority to deal with the budget problem that dairy surpluses may present to the Government or currently do, and we think those have been dealt with very adequately in some of the supply management proposals that have been presented in the Congress and will be presented shortly.

We feel in effect that the Secretary needs that kind of discretionary authority in terms of supply management. The Government witnesses this morning indicated that they rejected it as an almost revolutionary kind of activity and yet we suggest that for most of the basic crops or most of the basic commodities, supply management is a basic part of legislation and we think that it should be dealt with in the same terms in regard to dairy.

We think that as many of the other witnesses said this morning, that a price cut is going to compound the problem as proposed by the administration because there is really no alternative for dairymen in that case, except to expand production to try to hang in there until maybe their neighbor is forced out of business if it doesn't happen to them first.

So the question, as distasteful as bases and all the rest of that thing of supply management is, we think that is the direction that the dairy industry must go if it is going to handle the problem, and that was the consensus really that we heard in the Kansas City symposium. We were amazed to find the degree of uniform agreement among the dairy industry that this was indeed the way to go.

We were concerned as we listened to the testimony this morning, however, to hear that there seems to be some regional conflict raising the specter of regional conflict here. We want the committee to know that we consider the dairy problem a national problem, and it ought to be considered on a national basis. And if we start looking at regional conflicts, we are probably going to lose the whole thing.

I am really concerned about that.

Then finally I should like to say that we are concerned about the idea of exporting our surplus into foreign markets. You know, the foreign market is out there. There is a market. The question is whether or not we want to enter that market. That basically becomes a basic controversial question.

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[1] See p. 188 for the prepared statement of Mr. Huber.

Currently there are, there have been three offers made to the U.S. Department of Agriculture at world market prices or slightly above world market prices by private exporters to take surplus quantities of our surplus dairy stocks and dispose of them on the world market.

We understand that those requests were denied by the U.S. Department of Agriculture and the reasons given by Mr. Sims in apparently his letter of rejection to one of the private exporters was that no such offer would be accepted until Congress grants the Secretary the discretionary authority he has requested in regard to the price support cuts—the authority to, in effect, put the price support level at wherever he deems that level should be. And some people in our organization are suggesting that these dairy stocks then are being held hostage in the Secretary's negotiations with the Congress.

We are greatly concerned about that. We think if we are going to enter that market we have got to do it aggressively. And we have got to have authority to enter a market that is highly subsidized, and we have got to know whether or not we can do it under the general agreement or tariffs and trade and the other things that are out there.

In summary, then, we do support the parts of the Emergency Dairy Act of 1982 that speeds disposal of extra dairy stocks at home and abroad.

We oppose granting the Secretary discretionary authority to reduce dairy supports below levels mandated in the Agriculture Act of 1981. We recommend that the Secretary be given authority to implement a program of supply management for milk, one that would encourage producers to cut production by targeting program benefits to those who comply.

We thank you very much for the opportunity to appear here today.

Senator COCHRAN. Thank you very much, Mr. Huber.

Irvin J. Elkin.

STATEMENT OF IRVIN ELKIN, PRESIDENT, ASSOCIATED MILK PRODUCERS, INC.

Mr. ELKIN. Thank you, Mr. Chairman.

I also want to thank you for holding these hearings and for inviting our organization to appear here today. My name is Irvin J. Elkin. I am a dairy farmer. My farm is located near Amery, Wis., which is the heart of the dairy country.

I also serve as president of Associated Milk Producers, Inc., a milk marketing cooperative with 32,000 members in 20 Midwestern and Southwestern States. AMPI members produce about 12 percent of the U.S. milk supply.

On behalf of those members, I would like to urge this committee and the Congress to pass the Dairy Stabilization Act of 1982. AMPI is a member of National Milk Producers Federation. I would like to register strong support for the statements made by other witnesses for the federation favoring passage of H.R. 6313, the Dairy Stabilization Act and for H.R. 6314, providing for additional dairy product promotion.

Dairy farmers are willing to assume the costs of price support operations that the administration has deemed to be excessive. After extensive discussions with the AMPI membership over the last several months, I am convinced that, in the majority, dairy farmers are ready and willing to accept supply management, including production restraints, during the unavoidable temporary periods of oversupply.

I believe that had it not been for the administration's outspoken resistance to production restraints, the federation proposal would have been much stronger, and would have provided some penalty for production increases until production is stabilized at 4 percent or so above market needs, getting back to a better balance of supply and demand.

Secretary Block's proposal to solve the dairy problem through successive reductions in milk prices is totally unsatisfactory. We told him that just prior to his making the announcement to the press a week or two ago. We met with him in a series of four or five meetings trying our best to convince him that simply cutting the price was not the answer to solving the particular problem that we have. Obviously, we were not successful in convincing him of that. We have hopes as time goes on of convincing him as to something along that line.

It is an attempt to address the symptoms of a major problem rather than the problem itself. The dairy crisis has not resulted from a breakdown in dairy policy, but rather from a breakdown in overall agricultural policy. Because of the depression-like situation faced by producers of most other farm commodities, dairy is serving as a pressure release valve. It is the only place where people could make a buck, pay their taxes and stay in business.

Unless the absolute necessity for Government to intervene when excessive agricultural production inundates farm commodity markets is recognized and acted upon, we will witness an end to the productive and efficient commercial agriculture that we have come to take for granted.

Dairy farmers cannot and will not be responsive to price reductions in the way that the administration's proposal would anticipate. Very few farmers can afford to voluntarily decide to reduce their gross revenues if it results in reducing their net incomes. This is especially significant at times when recession permeates the entire agricultural economy and exhaustive planning must be exercised by farmers to meet their cash obligations.

It is unrealistic to assume that individual farmers can or will sell marginal cows that are contributing cash returns over their current cash costs, for the purpose of improving the national supply-demand balance—because they know that their individual decision will have no perceptible impact upon the total and that most other farmers will be making decisions to maximize earnings, or minimize losses, just hanging on until things turn around from the assets they control. I think this is a close parallel to the decision-making process Secretary Block must have faced in deciding how much corn he should plant in 1982 on his own farm.

I have heard that he decided it would not be appropriate for him to participate in the acreage set-aside, and I have no opinion on that, but once that decision was made, he still had an option to idle some corn land in the interest of reducing the national corn surplus and improving corn prices.

Again they have a problem in overproduction and we have the same.

This is not by way of criticism, but I doubt if the Secretary made such a decision. It is simply not consistent with the individual farm managers' decisionmaking. If a dairyman can reasonably expect that his decision will cull all cows whose marginal revenue barely exceeds marginal costs would be matched by large numbers of other dairymen, he can afford to make that decision. There is no basis for believing that significant numbers of either corn growers, dairymen or other agricultural producers will have such confidence in voluntary group response to probable market needs.

The measures under discussion today that are specific to dairy can provide additional time for milk production to be adjusted downward, while we wait for the general and agricultural economys to improve. As the outstanding example among all commodities of an appropriate and responsible governmental stabilization program, milk price supports should not be damaged while awaiting official recognition that fence-row-to-fence-row planting is suicidal for our food and fiber production system.

Once it is realized we are dealing with the traditional farm problem and that Government sponsorship of stabilization plans are the only remedy, then will come the massive task of devising programs for the remainder of agriculture that match the proven performance of milk price supports.

Since price standards for the basic commodities were reduced several years ago there has been an undercurrent of criticism of "high" milk supports.

The administration's proposal for flexibility to establish milk price supports anywhere from zero to infinity is totally inconsistent with its statements favoring an effective milk price support program.

Both Republican and Democratic administrations have repeatedly demonstrated their tendency to underprice the milk support level rather than to anticipate future milk needs and provide price incentives related to the long-term gestation periods of dairy decisionmaking. Minimum public costs result when price increases are made in time to sustain an adequate U.S. dairy herd. This sometimes requires initiatives by the Secretary to increase prices at times when current milk supplies are more than adequate, before impending shortfalls occur. Because of the reluctance of administrations to do so, it has been necessary, and will again be necessary, to provide for such upward adjustments, at times, through specific legislation.

Inflation has continued to increase manufacturing costs in milk plant operations. Manufacturing cost allowances have not been increased by administrative actions since October 1, 1979. Unless such corrections are made, it must be expected that pay prices to farmers will continue to be eroded below the price goal announced by the Secretary. If the price goal is to be meaningful, manufacturing allowances must be increased to reflect the inflated costs of converting milk into manufactured products.

With respect to H.R. 6314, it is extremely important that funding for increased promotion be provided by all producers selling milk. The largest single deterrent to unified marketing programs by farmers is the "free-rider" problem. Current promotion programs would have much greater and better support today except that producers feel that all producers have an obligation to participate. Benefits from increased sales are distributed quite uniformly to participants and nonparticipants alike.

This legislation will lose much of its current support if producers are permitted to sell milk without paying their fair share of the cost of increasing sales. Probably the most appealing feature of this proposal to the AMPI membership is that it would apply to all producers and that no refunds would be made. It is imperative that this full-participation feature be preserved.

I want to thank the subcommittee for permitting me to appear and make this statement.

Senator COCHRAN. Thank you.

It has been mentioned that Steve Miller was here from Mississippi.

Do you want to make any statements or comments?

Mr. MILLER. My opinions were pretty well summed up in Jack's presentation, but I would like to say one thing. Maybe it is an oversimplification, but I bet in the warehouse where all the butter and cheese is stored, there is not 1 gallon of milk. There is no surplus of milk. We have a surplus of butter and cheese.

I think in an area that can't supply their own needs for fluid milk, we should begin to hold the price of milk and any class II utilization; this is where we need to consider the reduction.

That is all I have got to say.

Senator COCHRAN. Thank you very much. I apologize again for our hearing running so long that we are pressured here at the tail end and I am not going to have as much time as I would personally like to discuss some of the points that you brought up.

It shouldn't be assumed that it is an indication of lack of interest or regard for the quality of the presentations you have made because I think each one has contributed significantly to the hearings and to the body of evidence we will have in the transcript to review when it comes down to the details of decisionmaking. I also point out that we will be able to have another full day of hearings.

We have had requests from a number of different groups—other associations representing consumer interests and others who wanted an opportunity to testify today. We have scheduled another day of hearings to accommodate those who did want to have some input into this hearing. That has not been scheduled at this point.

I notice also, as a matter of interest, that we have Dairy Day here in Washington on Saturday. I do not know whether any of you have seen this promotional bulletin here advertising Dairy Day on Saturday, May 29, so our hearings come at an interesting time. We will be having that here on the Mall in Washington.

For those that are concerned about the Government's support program in dairy, particularly those who think that dairy has been supported at too high a level, I want to point out the price that consumers pay for milk in relation to other beverages that are on the market: Since 1975, the price of milk to consumers has gone up about 43 percent. That is less than any of the other popular beverages that are consumed by Americans—soft drinks way over 50 percent, juices have had an 88-percent increase over that period of time; coffee has gone up 88 percent; you can cite other examples.

Milk today is a good buy. It is because of the efficiencies of dairy farmers in America and the effectiveness of the dairy supply program in making available a stable supply of product at reasonable prices. So I think the subcommittee members recognize the fact that we do not want to make changes in a support program that will have the effect of destroying the program.

The program is proven. I am still convinced—and maybe somebody will prove me wrong or convince me to change my mind—that just by increasing the support price, we have not automatically caused the surplus production that is being complained about, and the Government's removal from the market of the surplus production. I think you can attribute it to many, many factors. I think if you look at the rate of inflation and the cost of inputs into dairy operations just from 1970 to 1982, those support prices are not out of line.

As a matter of fact, I would guess that it probably resulted in a smaller margin of profit for many, many dairy farmers. It made it tighter, tougher to operate a dairy profitably. These things are items that we are going to be considering, and we appreciate having your viewpoints expressed today. We have a number of pieces of legislation that have been introduced.

I think five different bills have been introduced over in the House. Congressmen Jeffords and Gunderson, who were here today, each have a separate piece of legislation. The administration's bill has been introduced. Congressman Harkin has introduced a bill. He has introduced the Federation proposal, just as Senator Boschwitz. Then there is a bill by Congressman Frank.

So there are a wide, wide variety of viewpoints that have to be sorted through. That is what this hearing today is in response to. We will be beginning that work starting today.

Thank you all for being here. As I mentioned, we are going to have a vote that is imminent on the Senate floor. I will wrap up by saying that the hearings will be in recess and rescheduled for another day and notice will be provided to all interested persons.

Thank you very much for being here.

[Whereupon, at 1:40 p.m., the subcommittee recessed, to reconvene Thursday, June 24, 1982, at 9:30 a.m., in room 322, Russell Senate Office Building.]

PROPOSED LEGISLATIVE REVISIONS TO THE DAIRY PRICE SUPPORT PROGRAM

THURSDAY, JUNE 24, 1982

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D. C.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 324, Russell Building, Hon. Thad Cochran (chairman of the subcommittee) presiding.

Present: Senators Cochran, Helms, Boschwitz, Huddleston, Zorinsky, and Leahy.

Also present: Senators Hayakawa and Lugar.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI

Senator COCHRAN. The subcommittee will come to order.

We want to welcome everybody here for our second day of hearings on proposed changes in the dairy program. A number of issues were raised at the first hearing, and I am sure we will hear others today, from commissioners of agriculture and witnesses representing milk users, consumers, general farm organizations, and dairy farmers.

I noted at the close of the May 27 hearing that compared with other beverages, milk is still one of the best buys. I believe this can be attributed in part to the success of the dairy program. Consumers have enjoyed a wholesome supply of milk, at reasonable prices, and dairy farmers have managed to make a fair return on their investment. Unfortunately, over the years there have been times when the dairy program has needed adjusting because of high Government cost associated with an imbalance between supply and demand. This has not only been true for dairy but for other agricultural products as well.

For example, Government expenditures for wheat, feed grains, and cotton have been large this year, and the Government is encouraging farmers to reduce production to bring supplies back in line with demand, requiring a set-aside of acreage as a condition to participating in the Government farm program.

We have the same problem with dairy. Demand has been weak and production has increased, requiring program alterations. However, I do not believe we should make changes which destroy the program; rather, we should seek modifications which will allow us to get the supply of milk back in line with demand, without disrupting the stability provided both dairy farmers and consumers.

I noted with interest this weekend an article in the Washington Post by Spencer Rich pointing out the costs of various commodity programs this year. He specifically refers to wheat, corn, cotton, and milk as the big ticket support commodities. I thought it was interesting to see the total value of marketings of each of these major commodities compared with the costs to the Government of the programs.

Dairy has been singled out for a lot of attention by the media; it has been singled out for a lot of conversation about program changes by the administration. But I think it keeps in perspective the relative costs when you look at these figures—and I assume they are correct. I want to put this entire article in the record following my remarks, but I will point out at this time some observations about those comparative costs.

For instance, corn sales, including net Government loans, will be about $13 billion or so this year. Net Government outlays in that program will total $3.7 billion. Cotton marketings will be perhaps $4 billion, and Government outlays for the program, $963 million.

Dairy marketings will be in the $19 billion vicinity, with Government outlays possibly as high as $1.9 billion. For wheat, the total is $10 billion, and net Government outlays will amount to $1.5 billion.

I have not figured out the percentage of Government cost to the total value of marketings, but just glancing at these numbers I suspect that the dairy program has the lowest cost to Government as compared with the total value of marketings for those four major commodity programs.

Well, we have a large number of witnesses who are here today to testify before the subcommittee and we appreciate all of them being here. Because of the large number and the fact that this room has to be cleared in advance of 2 o'clock so the full Agriculture Committee can continue with its markup of the food stamp legislation, we are under a real time constraint, and I would encourage every witness to summarize or give the committee the benefit of highlights of prepared remarks, knowing that the full text of all prepared statements will be made a part of the record, and that will give the committee more of an opportunity to question witnesses and enlarge upon the content of the transcript and also permit us to adjourn in good time, maybe even perhaps for lunch, before the 2 o'clock meeting of the full committee.

Without objection the Washington Post article and a statement from Senator Huddleston will be inserted in the record.

[The information follows:]

[Reprinted from the Washington Post, June 20, 1982]

FEDERAL PAYOUTS FOR FARM SUPPORT TO TOP $10 BILLION THIS YEAR

(BY SPENCER RICH)

In those sectors of American agriculture that are federally supported, nearly a sixth of gross receipts this year will come from the U.S. Treasury.

Of last year's corn crop, about a fourth was put on loan to the government rather than sold to private buyers, and little has been redeemed so far. Of last year's cotton crop, two-fifths was mortgaged to the government; of last year's wheat crop, a sixth.

The government also now buys about a tenth of all the milk produced in the country.

"We have 1 million extra cows in this country; the rest of the cows produce milk for people to consume but 1 million produce just for the government," said Bruce Hawley of the American Farm Bureau Federation.

The degree of government involvement in the farm economy varies greatly from year to year, rising in bad times and declining in good, almost independent of the ideology of the party in power.

This year it has risen, putting severe strains on the federal budget. Record crops are glutting a market shriveling from the world recession and the high international exchange rate of the dollar.

A year ago, the net cost of farm price and income support payments and loans on wheat, corn, feed grains, cotton, dairy products and a few other supported products, plus related costs such as for storage, totaled about $4 billion. In 1980, the figure was $2.7 billion.

But this year, according to estimates given to Congress in March by the Agriculture Department and soon to be revised upward, the figure will jump to at least $10.4 billion; the Congressional Budget Office has already estimated at least $11.4 billion, others even higher.

That $11.4 billion is equivalent to about one-sixth of the roughly $70 billion farmers are expected to gross from the supported commodities. (They get another $70 billion or so in gross receipts from meat, poultry and fruits and vegetables, which are not supported.)

Wheat, corn, cotton and milk are the big-ticket supported commodities. In 1982, cash marketings of wheat including net government loans are expected to total perhaps $10 billion; net government outlays will be about $1.5 billion. Corn sales including net government loans will be about $13 billion or so, net government outlays about $3.7 billion; cotton marketings will be perhaps $4 billion and government outlays for cotton $963 million; and dairy marketings will be in the $19 billion vicinity and government outlays possibly $1.9 billion.

The $11.4 billion or so in government outlays for price supports and related costs can also be looked at from another perspective, which makes the figure seem startlingly higher; although the gross income of farmers from cash marketings plus a few other items will probably be in the range of $150 billion to $160 billion this year (no one really knows yet), their final net income after all production costs and the like are paid will be much lower, maybe in the area of $20 billion (it was $33 billion in 1979 and $20 billion in 1980).

The government's outlays of $11.4 billion net for price supports would be equal to half or more of this final net income of farmers.

The goverment's outlays for supports are expected to drop in future years as crops return to normal—there have been record harvests in recent years—and demand increases with the end of the world recession, but even so, the CBO has estimated $7.4 billion for fiscal 1983.

The reasons for the huge expansion of outlays this year, according to Martin Abel, senior vice president of Schnittker Associates, a well-known consulting firm on food and agriculture, are "large crops and relatively poor demand, partly due to the recession."

The 1981 wheat crop, 2.8 billion bushels, and corn crop, 8.2 billion bushels, were all-time records, and big crops are expected again this year. The huge cotton crop, 15.7 million bales, was the biggest since 1953, officials said.

Coupled with huge crops, Abel said, is the world recession and high value of U.S. dollars, which have left many countries in Eastern Europe, Latin America and elsewhere without the foreign exchange needed to buy U.S. farm goods.

"The world is running out of money to buy our stuff," said Abel.

The result of high production and lowered demand is surpluses, which drive down market prices; that is when the government steps in.

As high as they are in dollar terms, government support outlays in relation to total cash marketings are lower than at some times in the past.

A Congressional Budget Office study last spring, using its own groupings of base figures, estimated that in the late 1950s, when surpluses were extremely heavy, the combined value of government outlays as a proportion of gross marketings was substantially higher than now.

In some of those early years, according to Agriculture Department officials, the government had an entire year's supply of wheat or cotton in its stockpiles. The figure gradually dropped in the mid-1970s but is now rising.

Ironically, as Bob Mullins of the National Farmers Union pointed out in an interview, inflation in 1980 drove farmer production costs up sharply and as a result pushed net income per farm, as measured in constant 1967 dollars, to the lowest level in a generation. Government aid may be up; even so farmer income is down.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

Mr. Chairman, these hearings will review the operation of the Federal milk price support program and proposals to revise that program.

The Administration has requested that Congress provide the Secretary of Agriculture with authority to set the milk support price at any level the Secretary determines to be appropriate.

Also, several proposals to modify the milk price support program have been made by producer organizations and other interested parties. The producer organizations have developed a plan to control dairy production through a system of marketing bases and assessments levied on production in excess of demand, as well as a program to stimulate increased consumption of milk and dairy products.

I look forward to the views of the Administration, the representatives of the dairy industry, and others, on the current status of the price support program and ways to improve its operation.

Clearly, the various proposals differ in their approach to managing the production of milk and reducing surpluses. The proposals would also have different results in terms of possible costs to the Government and revenues for dairy farmers. It is important that these varying effects be examined in some detail.

LEGISLATIVE ACTIONS LAST YEAR

We have already taken action twice in the 97th Congress to hold down the cost of the dairy program and indicate to the dairy industry that it must begin to bring production into line with demand.

Public Law 97-6, enacted in March of 1981, eliminated an increase in the milk support price scheduled to take place on April 1, 1981, and saved the Federal Government some $160 million.

The Dairy provisions of the farm bill enacted in December of 1981 provide a reduced level of support for milk producers in fiscal years 1982 through 1985. The program under the 1981 farm bill will be less costly, by hundreds of millions of dollars, than the program that was in effect through the end of fiscal year 1981.

Some have argued that these actions did not send a strong enough message to milk producers. I think that most dairy farmers in most parts of the Nation have already received the message. Only in some areas has production continued to grow.

ECONOMIC FACTORS

Further, I am convinced that low grain prices and depressed livestock prices are interfering with an orderly adjustment of milk production down to levels that satisfy demand.

For example, in April, the index of prices received by farmers for feed grains and hay was 18 percent below the index of those prices a year ago. The average milk cow price in 1981 was $1,200, while a cull being sold for slaughter was about $500. This $700 spread diminishes the incentive for a dairy farmer to cull, while cheap grain encourages the farmer to keep cows in the herd. In fact, the milk-feed price ratio in the past six months is more favorable than it has been since 1979-1980.

Another economic factor contributing to a build-up of dairy stocks is that there has been little or no increase in consumer demand for milk and dairy products. And, reductions in the funding of federal nutrition programs will further weaken demand.

PROMOTION

In an attempt to address the problem of little or no growth in consumer demand for milk and dairy products, the dairy industry has developed a bill to establish a dairy products promotion program, including a producer check-off program. Under this program, the dairy industry would perform promotion activities to stimulate increased consumption of milk and dairy products.

This legislation, which has been introduced by Representative Tom Harkin in the House of Representatives, closely parallel; check-off programs for other commodities, such as eggs, wheat products, and potatoes; but differs in that it does not provide for a producer refund.

An increase in the demand for dairy products can save the Federal Government outlays of hundreds of millions of dollars. A well-designed promotional effort can help to bring about such savings, benefiting both milk producers and taxpayers.

CONCLUSION

Increased promotional efforts, combined with an orderly reduction in the amount of milk produced, should bring about a reduction in the cost of the dairy program without jeopardizing the ability of dairy farmers to provide an adequate supply of milk for American families.

I am pleased to see the dairy industry making a major effort toward resolving the supply and demand programs it faces. I know the Committee will give every consideration to their proposals as we proceed on revisions of the dairy program.

Senator COCHRAN. Our first panel this morning includes E. Linwood Tipton, senior vice president of the Milk Industry Foundation and International Association of Ice Cream Manufacturers; and he is accompanied by Darryl Mahan, P.G. Lee Dairy, Inc., of Orlando, Fla.; Darrell Deck, Steffen Dairy Foods, Inc., of Wichita, Kans.; Harold Steinke, vice president, Economic and Industry Relations, Consumer Products Division of Borden, Inc.; and Ellen Haas, director of Consumer Division, Community Nutrition Institute.

We welcome each of you to the subcommittee and we will ask Mr. Tipton to proceed.

STATEMENT OF E. LINWOOD TIPTON, SENIOR VICE PRESIDENT, MILK INDUSTRY FOUNDATION AND INTERNATIONAL ASSOCIATION OF ICE CREAM MANUFACTURERS

Mr. TIPTON. Thank you very much, Mr. Chairman. We appreciate the opportunity of appearing before you today. I will summarize my remarks as best I can and as briefly as I can.[1]

The dairy price support program, despite changes which have occurred, that is, holding the support price since October of 1980, has continued to build surpluses. The result has been production has continued to increase, consumption has declined and surpluses have grown. CCC outlays, as you already noted, will amount to about $1.9 billion this year.

In addition to that, however, I would invite your attention to the fact that about another half billion dollars are paid in interest charges, which is not included in that number, the interest on the products which are held in Government storage. So the total cost of the program is going to be in the neighborhood of $2.4 billion, and it is projected in the next 3 years that it would result in outlays of approximately $6 billion for that entire time, including the $500 million in interest charges on stored products.

We, the milk processors and ice cream manufacturers, endorse the price support program. We think it is important, it is a reasonable means of maintaining and stabilizing adequate supplies of milk, and our concern, however, is that the prices under the program are in excess of those which we really regard as necessary in order to supply an adequate quantity of milk and this is decreasing consumption, which is a great concern to us, as well as currently the program is creating a considerable amount of adverse publicity which in itself is a deterrent to milk and dairy product sales, and we think that the situation should be dealt with as promptly as possible.

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[1] See p. 200 for the prepared statement of Mr. Tipton.

Basically, there are two types of proposals that have been suggested, one of which is a reduction in the price support level. That would be the minimum changes to the price support program. That would be merely taking the price that is currently in effect, minimums that are established, and reducing them somewhat.

The other would require rather substantial revisions to the program and I think would possibly not meet the criteria you announced in your opening remarks, that it be a rather simple change and something that would not be disruptive to the whole program. Those are the base and quota plans that are being advanced.

We have prepared an analysis of each of the major proposals that have been submitted and these have been circulated to the committee before, but I would at this time like to ask that official notice be taken of it and that it be made a part of the record. The title of it is "An Analysis of Proposed Changes to the Nation's Dairy Policies—1982." [1] If I could ask that that be incorporated in the record, I would appreciate it.

Senator COCHRAN. We appreciate having that and it will be made a part of the record.

Mr. TIPTON. Thank you.

In our estimation, a reduction in the price supports to $12 on January 1, as the administration has proposed, will bring milk supplies and production into alinement. It will probably take approximately 18 months to accomplish that. However, at that point we believe that they will be in alinement.

Our estimates are that, based on that proposal, the Government would save about $800 million next year, and in fiscal year 1984 removals would be down to about 3.6 billion pounds, compared to the 14 or 15 billion pounds that will be bought this year, and that the cost of the program would only be about $400 million. That will be a savings of about $1.6 billion.

So we think that that program is effective. It does have a lag time before it is fully implemented, but that lag time, when you consider the time that has been devoted to building up surpluses, is probably not very long, but we think in a period of 18 months it will be in alinement.

Some have claimed that the prior reductions in the price support have not reduced production and have inferred that they would be a continuation of surpluses. We think that is not the case. In fact, a look at the record would indicate that that has not been the situation.

In the past, the price support program was reduced on three different occasions, 1954, 1958 and 1962, and on each of those occasions—I will just tick them off very quickly—in 1954-55, the price support was reduced 16 percent and the CCC net removals went from 11.3 billion pounds down to 5.1 billion pounds or a 50-percent reduction. In 1958-59, the price support was reduced 6 percent, and there was over a 50-percent reduction again in the quantities purchased by the CCC in the subsequent year. In 1962-63, the price support was reduced by 8 percent, and there was a decrease of 20 percent in CCC purchases in the following year.

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[1] See p. 209 for the summary of "An Analysis of Proposed Changes to the Nation's Dairy Policy—1982."

Now, it is true that the milk production did not decline as rapidly as people would have anticipated that it may have, but one needs to look behind the numbers, at the actual price reductions that occurred in the marketplace, in order to analyze that.

For example, in the 1954-55 period, the price supports dropped 16 percent, but the actual price received by farmers only went down 7 percent. And in 1958-59, there was a 6-percent drop in the support price, but the price received by farmers only went down 2 percent. And in 1962-63, there was an 8-percent drop in the support prices, but the actual price received by the farmers was only down 3 percent.

One of the reasons the farm prices have not decreased as rapidly or as much as the price support change was back in those periods class I prices under Federal milk marketing orders were determined on a different formula than the price support, and also during some of those periods premiums or over order charges that were assessed by the cooperatives offset some of those decreases in support prices.

So when you look at the actual price reduction that farmers received, I think it makes sense that they would not have as drastically reduced their milk production. On the other hand, it is clear that the small reductions that occurred reduced the surpluses bought by the CCC, and I just wanted the record to be very clear on that because I think it has been somewhat confused.

Currently, of course, Federal order prices are tied directly to manufacturing milk prices, and so any reduction in the support price would most likely be reflected directly in the entire price received by farmers.

We are opposed to base and quota plans. These in our opinion will create some severe distortions to the program. I guess the most important thing that I would say in that regard is it seems to us that we got into the problem of surplus milk production because the prices were too high and they were too high over a period of time, and the simple and most direct way to get out from under that problem is to put the prices back to a more realistic level. And we think, as I have already said, that that can be accomplished with some fairly minimal changes, just by a simple reduction in the price support program.

Looking at the individual proposals that have been offered, I will just comment very quickly on some of those impacts as we see them. The proposals by the National Milk Producers Federation as encompassed in Mr. Boschwitz' bill, would actually—all of the proposals that we looked at—let me say it this way—would reduce prices to farmers in the first year, in 1983. However, in subsequent years they really depart from each other in different directions. In subsequent years, the proposals that embody the basic quota plans would increase the prices rather substantially and increase prices to consumers as well; whereas, the proposal for a simple price reduction until the surpluses are removed would hold the price at the support price level.

There is a double-whammy effect of the base and quota plans that are being talked about that I do not believe has been focused on very well. That double-whammy effect comes in two ways. One, they would have an assessment on the producers immediately to go to the Treasury. However, as surpluses are reduced, that assessment is reduced, meaning that the price that the farmers in fact receive would go up rather substantially.

Also there is an increase in the support price projected because each of those have a formula that would result in the support price itself being increased. So you get two types of incentives to increased production. So once you—I think they work against stability, instead of supporting stability, because once you get the support price in line, the prices are high enough to encourage additional milk production as a substantial incentive, so you have to go back to imposing the assessments to try to bring them back into equilibrium. You never quite seek it. You keep going past it in both directions. We think it gives you a yo-yo effect, actually.

The impact on consumers, as I have already indicated, each of the quota plans would increase the prices to consumers, whereas a simple reduction in the price support program would constitute a reduction in the price to consumers.

Each of the programs would reduce the surpluses bought by the CCC. However, in the quota plans that have been offered, each of those have some base amount that they expect the Government to continue to buy. Some of them are amounts of about 3.5 billion pounds of milk equivalent and others are amounts of 5 billion pounds of milk equivalent. We see no reason why surpluses would ever fall below those levels, because again once you get down to that level, the assessment comes off, the price goes up and you would increase production, so there would never be any reason for production to really fall below those minimum levels. So you would always result in the Government buying 3.5 billion or 5 billion pounds of milk equivalent at the cost that goes along with that.

Each of them would be effective in reducing the Government's cost, as indicated. However, the simple reduction in the price support program would bring the Government's cost into line in about 18 months, and at that point market prices would probably begin to increase again and it is our estimation that in 1985 milk prices to farmers would be about $14.30 per hundredweight, manufacturing price, compared to $14.60 as in the current law. So it, at that point, would be back up to virtually the same level that the minimum support price is in the current law.

There are a number of other things which I will just touch on very, very quickly, advertising and promotion being one. We are in favor of increased advertising and promotion. We are concerned, however, about the bills that have been submitted which would contain prohibitions on branded advertising.

We think that to provide an effective advertising and promotion program in the dairy industry, it is extremely important that the implementation of those programs encompass the people who are in fact selling the products to the consumers or to the chainstores, and that is the processors who have that end contact. And to do an advertising program in a nonbranded way, without being able to tie in to where the decision actually is made, as to whether to buy it or not buy it, which is at the store, with some brand implementation we think is a mistake. And so we would like to see any restrictions on branded advertising removed.

There is one other aspect of that program that gives us—two other aspects that give us grave concern. One is the bills that have been over on the House side anyway would turn over all of the records of handlers or could result in turning over all of the records of handlers, sales records to a board of dairy farmers, and members of the board of dairy farmers could in fact be dairy farmers on boards of competing organizations or cooperatives that are selling milk to them, and we think that the provisions should be clear, that the board would not have any access to handler records. Those going to employees of the Department of Agriculture would seem to be reasonable Those are done now under the Federal order program, but we think it is unreasonable that handler records be turned over to a board of dairy farmers.

The other thing that needs some clarifying in the advertising program is the bills that have been drafted would indicate that there could be multiple orders in a way that is unfair. Now, we understand, or we have heard, their intent is that it not be multiple orders, and we think that the legislation ought to be clear. It ought to be a single national advertising order that would be permissible under those programs.

While there are no bills to implement increase in the minimum nonfat and fat solids, there has been a great deal of discussion that that would be an appropriate way of decreasing surpluses. We think, however, that the time required to implement an increase in the minimum milk fat and nonfat solids content is so great that it would really have very little to do with the current surplus. The current surplus will have totally dissipated itself by the time this could be put into effect, and we are opposed to any increase in the minimum milk fat standards. That does not seem appropriate. However, we are willing to take a look at some possible increase in the nonfat solid content of milk.

The last point that I would like to make is that a lot of people felt that by removing the special milk program or reducing substantially the appropriations for the special milk program, that there would be a Government saving. Our analysis clearly indicates that this is not the case.

In fact, with the removal of the special milk program, the additional amount of milk that is not now consumed as milk but must go into butter, powder, and cheese and bought by the Government and stored is offsetting, more than offsetting the savings in the special milk program. Our analysis would indicate that it is about a $22 billion net cost to the Government by having reduced the special milk program to the levels that it is currently.

Therefore, we would urge that this committee consider using CCC funds during a period when we have tremendous surpluses to actually buy dairy products or actually reimburse the schools for the partial use of dairy products, milk and cottage cheese, and some of the dairy products going to the schools. And I think that the net cost to the Government would be somewhat reduced, and certainly the nutritional benefits of the luncheons in the schools would be improved significantly.

Thank you very much. I had a lot of points and I am sorry that I took a little longer than I had hoped.

Senator **Cochran**. We appreciate your abbreviating your statement for the benefit of the committee.

I think we will hear from the other members of the panel before we get into the questions.

Mr. Mahan.

Mr. **Mahan**. Good morning, Mr. Chairman. I have attempted to summarize my remarks on paper, so if you do not mind I will read them but they should be short.[1]

Senator **Cochran**. That is perfectly all right.

STATEMENT OF DARRYL MAHAN, T. G. LEE DAIRY, INC., ORLANDO, FLA.

Mr. **Mahan**. My name is Darryl R. Mahan. I am vice president and treasurer of T. G. Lee Foods, Inc., in Orlando, Fla. We also operate McArthur Dairy, Inc., in Miami, Fla., and have four plants in Florida producing a complete line of fluid milk, fluid milk products, and ice cream, and market throughout the entire State of Florida with the exception of the panhandle area.

We appreciate this opportunity, needless to say, to appear before you and to present our views on what we think is a most pressing problem to both the industry and the Government.

In Florida, as in all parts of the country, we realize the Government cannot go on year after year spending billions and billions of dollars on billions and billions of pounds of surplus dairy products. Nor should it, we believe. The fact that this hearing is being held only 6 months after the passage of the 1981 farm bill shows that indeed the Senate, and this committee in particular, also recognizes the problem.

Since 1979 we have seen the costs of surpluses purchased by the Government go from $91 million to over $2 billion. All of our industry experts, and I think the Government agrees, believe that under current law, without change, we can only expect costs to go higher and higher and we cannot expect the present level of imbalance between production and consumption to continue. We certainly cannot encourage it. Something must be done and we believe the right course of action is to decrease the support price.

In our opinion, decreasing the support price would increase consumption of dairy products, decrease the surpluses, save the taxpayers money, and help reduce the budget deficit. A program that only allows prices to go up, no matter what, is unrealistic, it seems to us. With milk production, surpluses and Government costs all at record levels, the message is clear: The support price is simply too high.

We do not want the milk support program to be eliminated. In our type industry, the need for a safety net that keeps production from dropping too low exists. If it should happen and you get into a severe shortage, it takes a long time for production to build back to adequate levels. In the meantime, prices accelerate rapidly and consumption drops off. Therefore, the law should set some minimum price. But the current surpluses and Government expenditures show that $13.10 per 100 pounds of fluid milk is simply too high.

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[1] See p. 215 for the prepared statement of Mr. Mahan.

The other alternative the committee is reviewing, production controls, has a number of drawbacks, it appears to us. S. 2587 would increase consumer prices and decrease consumption. It will make our industry more regulated and restrictive and increase the bureaucracy. Even if this program had merit, given the current surplus and future production outlook, there is simply not enough time to properly establish such a program and to see any benefits in fiscal year 1983, in our opinion.

New regulations would have to be implemented for proper management and determination of production basis and, of course, these regulations would take much time to formulate and implement, and it would be very, very difficult to change.

The bill requires the deduction of assessments from each of the Nation's 323,000 dairy farmers' milk checks. Companies such as ours, processing and manufacturing dairy products, would have to pay these deductions over to some Government agency, then each producer, under a Federal order, or in unregulated areas under the Federal order, would have to account to the Federal market administrator or, in unregulated areas, to some other appointed official, will have to demonstrate that he had in fact reduced his production to get a rebate of that deduction, his production to get a rebate of the deduction.

Nationwide, on an annual basis, this could amount to millions of claims. Hundreds of thousands of rebate checks would have to be processed and audited. Someone would have to verify each of these claims. It would be extremely costly and a drastic change in the current milk support program.

From our point of view, the net effect of production controls would be higher costs, decreased consumption, a more regulated industry and a larger bureaucracy. Therefore, we have to oppose any production control program of this nature.

Lowering the support price to a more realistic level would have many benefits, it seems. It would decrease the Government cost and thereby save the taxpayers money. It would increase the consumption of dairy products and help balance supply and demand for dairy products. It would not require revamping the whole milk support program.

Another subject of concern to us is school milk consumption. It is off drastically this year. Milk Industry Foundation studies have indicated that nationally school milk consumption is off from 15 to 20 percent. I know our company sales are off 16 percent this year. Everyone in the industry at least agrees that the primary reason for the reduction is the reduction in the special milk program.

If the decreased funding for the special milk program was saving the Government money and lowering the oversized budget deficit, it would have some merit. But because of the present surplus situation, this is simply not the result. In fact, according to the recent study by Economic Perspectives, Inc., the cuts in the special milk program were increasing the total costs to the Government by $22 million, excluding the nutritional and other values of school consumption. This is occurring because fluid milk consumption lost in the schools due to removal of the program subsidies became surpluses purchased by the Government under the milk support program as cheese, butter, and powder. These products have to be processed more than fluid milk and may in fact eventually be donated at a loss.

It would seem to us cheaper to distribute the surplus as fluid milk for the productive use, without paying the additional cost of manufacturing, storing, distribution, et cetera, as is currently the case.

Under the special milk program, the Government only subsidizes about 50 percent of the cost of fluid milk. It is still less expensive, certainly less expensive to get it consumed as fluid milk than to have the Commodity Credit Corporation pay 100 percent of the cost of purchasing the additional surplus in the form of butter, powdered milk, and cheese.

We are not requesting that this entitlement program be reinstated. Instead, we are endorsing the Milk Industry Foundation's proposal to allow the Commodity Credit Corporation to use its funds to subsidize school milk as long as it would save the Government money. Additionally, if the Government can decrease its total expenditures by subsidizing school consumption of other products, like cottage cheese, sour cream, and yogurt, we would urge that this also be done.

I would like to touch finally on one other subject, changing the Federal fluid milk identity standards. Some have suggested increasing the minimum amount of milk fat and nonfat solids that must be in milk, lowfat milk and skim milk to levels similar to those now in effect in California. We oppose this, for a number of reasons.

It will increase fluid milk prices and decrease consumption, which we do not believe is an adequate way and an appropriate way to properly solve the problem of production already greater than demand.

Also most of the time Florida barely produces enough milk to meet fluid demand. If our milk standards were raised, we would have to import dairy products to meet the higher minimums. We already pay some of the highest prices for milk in the country, according to Government statistics. California, on the other hand, has some of the lowest prices.

It does not seem appropriate to us for Florida consumers and those in other deficit markets to be forced to pay higher prices simply because California and a few other areas of the country have an oversupply of milk.

Mr. Chairman, I thank you for the opportunity to appear before your committee.

Senator COCHRAN. Thank you very much, Mr. Mahan. I want to point out that Senator Hawkins sends her welcome to you. She is not able to be here this morning at the hearing, but she has just yesterday introduced legislation to reduce the support price for milk and we will have her statement in full inserted at the appropriate place in the record.[1] I wanted to point that out in connection with your testimony.

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[1] See p. 131 for the prepared statement of Senator Hawkins.

Mr. **Mahan**. Thank you.

Senator **Cochran**. The next member of the panel is Darrell Deck. Senator Dole conveys his regards and respects to you and has provided the committee with a statement welcoming you and introducing you to the committee, and we will place that in the record at this point. He conveys to you his warm regards and his welcome.

[The statement of Senator Dole follows:]

INTRODUCTORY STATEMENT OF MR. DARRELL DECK BY SENATOR BOB DOLE

Senator **Dole**. Mr. Chairman, it is my sincere pleasure to introduce to the subcommittee Mr. Darrell Deck, executive vice president of Steffen Dairy Foods in Wichita, Kansas.

Mr. Deck received his undergraduate training at the University of Kansas, and went on to earn his masters from the University of Denver. He served during the Korean conflict as a Navy pilot.

Mr. Deck joined Steffen Dairy in 1959, and has held numerous positions in the firm's management prior to his present responsibilities.

I am proud to announce that Steffen Dairy Foods of Wichita is celebrating their 100th anniversary of faithful service to Kansas consumers and to the Kansas economy. They are the largest handler of dairy products in the State.

It is an honor to welcome a fellow "Jay Hawker" to this subcommittee. I am sure that his testimony will be of great benefit as we examine ways to curb the continuing high cost of the national dairy program to the taxpayer.

Senator **Cochran**. You may proceed.

STATEMENT OF DARRELL DECK, STEFFEN DAIRY FOODS CO., INC., WICHITA, KANS.

Mr. **Deck**. Thank you, Mr. Chairman. I believe that in the interest of time we would proceed faster if I refer to my prepared notes.

I appreciate the opportunity to address your committee and present my views on the dairy situation. Our company, Steffen Dairy Foods Co., Inc., has been in business for over 100 years, processing milk and manufacturing ice cream and other related dairy products. Steffen is a member of the Milk Industry Foundation and the International Association of Ice Cream Manufacturers, and I serve on the board of the Ice Cream Association.

I would like to first say that I endorse the dairy support program's primary purpose, which is to insure an adequate supply of milk to meet the country's needs. Unfortunately, in recent years the price level set under the program has been too high. This has caused numerous problems: Excess quantities of milk have been produced. As a milk processor and ice cream manufacturer, one of the most harmful impacts of the unnecessarily high prices has been the depressing effects they have had on dairy sales. It is essential that these problems be remedied and remedied as quickly as possible.

As I understand the proposals you have before you, there are essentially two choices: a simple price cut or some kind of complicated production control system. Everyone will agree that one of the best ways to help solve the dairy surplus problem is through increased sales. One of the surest ways to increase sales is to lower the price. A decrease in the support price will accomplish this. Production controls, on the other hand, not only will not lower the prices, they will increase them.

Fluid milk sales in our area of the country range from sluggish to depressed. I am sure there are a number of reasons for this, but an unnecessarily high support price is one of them. For this reason, as well as some others, the best alternative is to pass legislation that will allow the support price to be reduced to a level that will lead to a balance between supply and demand, while at the same time increasing dairy sales.

If you believe a floor must be set below which the price cannot drop, I would endorse such a floor as long as it is adequate to solve the problem. Too drastic a price cut would lead us into a shortage sometime down the road which should be avoided. But it seems that with today's 10-percent surplus, a $12 floor would not be out of line.

A simple price cut that can be accomplished quickly and easily would be the best course to follow. It will help to stimulate sales, cut production, decrease the surplus, and save taxpayers and consumers money. Production controls will not lower consumer prices or stimulate sales and they will require a whole new set of regulations and more Government intervention into the marketplace.

A bill has been introduced in the House, H.R. 6314, which would create a nonbranded dairy advertising program. There has been some speculation that a similar bill would be introduced in the Senate. There is one aspect of this bill which I find particularly objectionable. It gives a board composed of dairy farmers and cooperative managers access to my confidential records. As far as I know, this is totally unprecedented. No Government——

Senator **Boschwitz**. Is that the promotional legislation you are talking about?

Mr. **Deck**. Yes. No Government program has ever routinely required a business to turn over its confidential records to non-Government people. I would urge you not to include this provision in any contemplated legislation.

Senator **Boschwitz**. One Government organization regularly does that. It is called the IRS.

Mr. **Deck**. Well——

Senator **Boschwitz**. Pardon me. Go right ahead.

Mr. **Deck** [continuing]. That may be, but I am not in competition with the IRS, either.

Senator **Boschwitz**. Do not be too sure.

Mr. **Deck**. Another problem we are faced with is the drastic reduction in milk sales to schools. Mr. Chairman, I can speak directly to this question because our sales to schools have dropped 23 percent. This is primarily due to the decrease in funding for the special milk program. I understand and support the Government's efforts to decrease spending and decrease the deficit. And for this reason when the cuts in the special milk program were initially proposed, the Milk Industry Foundation and the International Association of Ice Cream Manufacturers boards of directors chose not to oppose these cuts. We were willing to do our share to get the economy going again. The only reason for eliminating the program's funding was to decrease Federal spending and in so doing decrease the Federal deficit.

But now we are seeing that because of the present surplus situation, the Government not only is not saving money from cutting the special milk program, but it is losing money. Every gallon of milk not sold in the schools adds to the surplus which the Government must buy. And since the special milk program was only subsidizing about half of the cost of the milk consumed in schools, it actually cost the Government more to buy the surplus butter, powder, and cheese than it would to fund the program.

I would urge that during this massive surplus situation, the Commodity Credit Corporation use a portion of its funds to subsidize school milk sales in the same manner as the special milk program did in the past. This should be continued only as long as these surpluses exist. By so doing, the Government will save money and schoolchildren will receive a highly nutritious product, fluid milk, instead of the mountain of surplus butter, powder and cheese growing even larger. This position is strongly endorsed by the associations' boards.

In closing, Mr. Chairman, if I can leave one message with you, it would be this: I hope you and your colleagues will resolve this problem as soon as possible. For nearly 2 years, the subject of dairy surpluses and its high costs to the taxpayers has received considerable attention in the media.

In nearly all instances, this has resulted in extremely negative publicity. This unsolicited attention has and continues to have a dampening effect on how consumers view all dairy products and in turn adversely affects their buying habits. The sooner the problem can be resolved, the better it will be for all segments of the dairy industry.

Thank you, Mr. Chairman, for the opportunity to appear before you.

Senator COCHRAN. Thank you very much, Mr. Deck, for your statement.

Harold C. Steinke, for Borden, Inc.

Senator LEAHY. Mr. Chairman, if I could just have about 30 seconds.

Senator COCHRAN. Surely.

Senator LEAHY. I am going to have to leave to go to the Security and Terrorism Subcommittee where——

Senator COCHRAN. It is sort of like what we have going on here.

Senator LEAHY. Yes. It is more of a training program over there. I wanted to commend you for having these hearings. I think that they are extremely important. I think that you have a well-balanced group of people who are testifying. A number of them I have heard on various occasions over the years here. I think it is going to make a very, very worthwhile record.

There will be two people in your next panel—George Dunsmore, commissioner of agriculture of Vermont, and Paul Stone, who is a well-known and outstanding farmer from Orwell, Vt.—are going to be testifying, and I would like to have your permission to leave with the staff some questions for the record to be inserted with several of the different witnesses later on.

Senator COCHRAN. That would be perfectly all right. We understand your commitment in this other committee. It is of great importance for you to be there and we want to thank you for coming by and contributing to the hearings, to the challenge that we face in trying to figure out a solution to the problem.

Senator LEAHY. Well, I look forward to working with you and Senator Boschwitz and the others and hopefully we can come out with some solution to this.

Senator COCHRAN. Thank you very much, Senator.

Senator LEAHY. Thank you.

Senator COCHRAN. Mr. Steinke.

Mr. STEINKE. Thank you, Mr. Chairman, and members of the committee. I am Harold Steinke, with Borden, in Columbus, Ohio.

Senator BOSCHWITZ. Do you have prepared testimony, Mr. Steinke?

Mr. STEINKE. I have prepared testimony, but I would prefer to simply summarize it, in the interest of time.

Senator BOSCHWITZ. Fine.

Mr. STEINKE. I presume that will all be a part of the record.

Senator COCHRAN. Surely, that will be included in the record. We appreciate your providing us with it.[1]

STATEMENT OF HAROLD STEINKE, VICE PRESIDENT, ECONOMIC AND INDUSTRY RELATIONS, CONSUMER PRODUCTS DIVISION, BORDEN, INC., REPRESENTING U.S. CHAMBER OF COMMERCE, ACCOMPANIED BY E. CLINTON STOKES, DIRECTOR, FOOD AND AGRICULTURE POLICY

Mr. STEINKE. I am a past member of the Food and Agriculture Committee of the U.S. Chamber of Commerce, and I represent the U.S. Chamber of Commerce here today. With me is E. Clinton Stokes, who is director of food and agriculture policy for the U.S. chamber.

My purpose in coming here today is to express the chamber's concern over the present state of the dairy industry and to recommend some changes which we think will help save the support program for milk, will maintain adequate milk supplies for our consumers and protect the legitimate interests of dairy farmers.

We think that the present program has interfered with the normal operation of a competitive market system, and if it continues much longer it might even cause a backlash against it by the taxpayers. These consequences would be the possible demise of the entire support program, which would be an undue hardship to our dairy farmers and disrupt the present ample supply of milk for our consumers.

We need new legislation that will authorize a dairy support program that will be more responsive to changing market forces. A bill has been introduced at the request of the administration which, if wisely administered, will meet that need. S. 2533 includes three specific provisions.

One provision would be to make the Secretary of Agriculture responsible for setting the price support level. The second provision would be to expand the authority of the CCC to make and finance charitable donations. And the third provision would be to create a dairy advisory board.

Now, the chamber endorses the first two provisions of the program. We do not have a specific policy for the third. The first provision, which is for the Secretary of Agriculture to be responsible for price support levels, is a simple approach, and it has much merit in its forthrightness and simplicity. Especially, the program can be flexible. It can be adjusted to changing market conditions.

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[1] See p. 217 for the prepared statement of Mr. Steinke.

There are other factors than milk prices which determine the profitability of a dairy farm operation. Feed costs, productivity levels are all important. It is not only the price of milk that determines whether or not a farmer is going to produce more or less.

Only the Secretary of Agriculture, we feel, has the necessary economic facts to assess all the angles necessary to come up with the proper price to support milk. The Department of Agriculture is the prime collector of all of this information. We all depend on it. We in the industry and you in the Congress have to use the figures from the Department of Agriculture, since there are no others that are dependable. And we have learned from bitter experience the past couple of years that the major cause of our problem today is the rigid 80 percent of parity formula, with semiannual adjustments, which was mandated 4 years ago by Congress.

The Secretary's flexibility to take other things into consideration—market forces, for example, and then set a support price—was completely lost with the 80 percent formula.

Senator **Boschwitz**. Are we still at 80 percent?

Mr. **Steinke**. No. That was foregone a year ago. After some hearings here it was decided not to increase the support level back to 80 percent.

History has shown that Agriculture Secretaries in the past have not abused the discretionary authority when they were able to set the support price between 75 and 90 percent.

The second point in the bill which we endorse is the revised donation program. We think that the huge stocks of butter and powder and cheese are good, nutritious foods, and they should not sit in warehouses getting old and decaying and accumulating storage charges. We support every effort to utilize these stocks, at home or abroad, whenever they can help alleviate hunger and poor nutrition among those who cannot help themselves.

The third point in the bill, the dairy advisory board, is a questionable provision to us. We think that the Secretary of Agriculture would normally consult with leaders in the dairy industry before making decisions. We do not see any need for another board or a commission or another layer of Government, as this legislation would propose.

It would actually separate further dairy farmers and their cooperatives, processors and consumers from direct access to the decisionmaking level of the Secretary in the Agriculture Department.

One of the reasons why the present dairy price support program is in trouble is that the marketplace is not given much of an opportunity to establish a balance between production and consumption. We fear that an advisory board might become a step toward centralized economic planning of the entire dairy industry, and that sort of thing would exacerbate the present problem, rather than correct it.

There are several alternatives that have been proposed before your committee and bills which have been introduced in the Senate. We oppose approaches which would impose quotas or bases, multiple-tier pricing, dairy control boards or other forms of bureaucracies that would need to be supported either by taxpayers or consumers or farmers.

Inflexible support prices have been the cause of our present problem, and the most direct and efficient and expeditious way out of this problem is to simply make the price support level more flexible.

International trade has come into these hearings in a big way, and there is an understandable interest in increasing U.S. exports of dairy products. There have been a number of well-meaning but we think misguided proposals to subsidize our dairy surplus into the world market. That sort of additional distortion of a marketplace and interference with free trade would add to our miseries, not help them, and it would negate our efforts, our very strong efforts to persuade the European Economic Community to desubsidize its agricultural exports.

We strongly advise against the U.S. Government trying to outspend other countries by subsidizing surplus exports. That form of dumping will almost certainly invite retaliation against our other agricultural exports and that must not happen.

In summary, Mr. Chairman and members of the committee, our chamber urges that S. 2533, the Emergency Dairy Adjustment Act, be passed with provisions for the Secretary of Agriculture to have discretion to adjust support prices in accordance with changes in production costs and market forces. That will help all farmers, it will help consumers and we think our entire national economy in the long run.

Thank you very much.

Senator COCHRAN. Thank you very much, Mr. Steinke.

Now we will hear from Ms. Haas, Community Nutrition Institute.

STATEMENT OF ELLEN HAAS, DIRECTOR, CONSUMER DIVISION, COMMUNITY NUTRITION INSTITUTE

Ms. HAAS. Thank you very much, Mr. Chairman. I certainly understand as a consumer organization—and wearing my other hat as president of Consumer Federation of America—the terrible time constraints of today. The markup this afternoon of food stamps is critically important and so, therefore I will be delighted to summarize my statement and appreciate that the entire statement will be in the record.[1]

Let me say that we believe that this is a very important hearing in which we are examining the Federal dairy price support program and finding new ways to bring it back into balance and finding ways to adjust the program which has run away and really needs to be reined in.

At the outset though, I find it very important to make some things clear. No. 1, consumers understand the great stake they have in a national dairy policy. We also know the importance of a strong dairy industry which provides American consumers with a bounty of highly nutritious dairy products.

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[1] See p. 222 for the prepared statement of Ms. Haas.

At the same time we believe that the Federal Government has a proper role in stabilizing the fluctuations inherent in this industry and providing a modicum of security to dairy producers.

But, Mr. Chairman, few would deny the fact that the program is running out of control today and that steps must be taken to prevent the dairy problem from becoming even worse. In fact, I would like to begin my testimony by using a quote of Secretary Block, in which he has pointed out that American taxpayers are spending a quarter of a million dollars every hour 24-hours a day, 365 days a year to buy and store dairy products and to service the debt into which the CCC must enter to finance these purchases. With this sort of Government spending, it is no surprise to us that Congress is now getting ready to address a way to raise the debt ceiling above the $1 trillion level. Today's intolerable costs of the program, as we all know and as we all have heard through today's testimony and also the one of 2 weeks ago, is the legacy of a dairy price support program that during the late 1970's was mismanaged and revolved around both an inflexible minimum price support level that was much too high and also the continuing use of a price support index that is inappropriate to the task.

As we all know, the parity index bears little relation to what exactly it costs a farmer when he produces milk, nor does it bear any relation to the demand side for dairy products which actually has been stagnant over the past few years, nor does it all reflect the great increases we have had in dairy productivity.

The parity index is really nothing more than an instrument for comparing the buying power of average farm returns at one particular time to a previous time.

A principal problem is that the weights given to important dairy production factors are inaccurate. For example, the cost of feed—which for dairymen constitutes about 50 percent of the cost of producing milk—is weighted at only 12 percent of the total index.

My testimony goes through the other problems with the parity index. But I think when we look at the past, the lesson we can learn for the future is that, one, the Department of Agriculture must have some flexibility to set levels which are likely to call forth a supply which actually reflects demand, instead of being locked in over a multiyear period to an unrealistically high minimum support level.

And two, in simple terms, the parity index should be replaced. Essentially every other major agricultural support program has been switched to a cost of production basis. Now, I recognize that the parity index was not used as the basis for setting milk price support prices in last year's farm bill, and the first recommendation that we would like to make is that this policy continue, that the parity index be placed on the shelf.

The fact is that even if we address this point and address the cost of production index for the dairy program, it does not address the demand problem and that the program must be run with some degree of market orientation; that is, the Secretary of Agriculture should have some leeway in setting support levels. At the same time, however, the Secretary should be provided with instructions from Congress to set prices at levels which he feels will call forth the correct level of milk over the short term and maintain dairy herds at levels which will produce an adequate amount of milk over the long term.

However, we do not believe that the Secretary of Agriculture or that the Department should have unlimited authority, as he has requested. Instead, both lower and upper limits in absolute dollar terms should be in place to prevent any abuse of the discretion Congress could provide him.

Over the next 4 years, we would suggest that the upper limits to the dairy support price be those dollar figures set down in the 1981 farm bill, and we would suggest that the lower limit be one dollar below that current price level of $13.10 per hundredweight of milk.

For example, during fiscal 1983, the price support could be set at a level between $12.10 and $13.25 per hundredweight. This would provide USDA with the flexibility to get milk supplies back in line with demand, and we have figures for 1984 and 1985 as well.

We believe that this proposal is entirely fair and reasonable and, most importantly, could be implemented and set to work immediately.

I have taken a good bit of my time to discuss our strategy, but I would like to take a minute or two to comment on the proposals that are before you and in the hearing of 2 weeks ago.

In reality, the two main proposals other than the administration's are variations on the same theme. Both are what would be called base excess plans. While these could in fact bring down production, there is no question about that, we believe they have some very serious problems. We have I think listed in our testimony six. I will just take two or three at this time.

One, it would require a massive new bureaucracy to determine the appropriate base levels and assign them. Two, I am afraid that it would take a considerable amount of time, perhaps more than a year to implement. Most important to consumers, however, we feel that since the basis of the approach is to restrict the level of milk production, its effect is to boost both the producer and the consumer prices from year to year. Each proposal essentially carries some minimum parity level at which the support price would be maintained over the next few years and in each case consumers would end up paying more for milk than they would under the existing law and paying more for milk under either the administration's plan or our approach.

Unfortunately, what that means in the end is that consumers would not be consuming a nutritionally unequivalent product and purchases would go down and in the long run we all would suffer. In fact, according to a recent study by the agriculture consulting firm Economic Perspectives for the Milk Industry Foundation, the figures are quite staggering. These base plan proposals would cost consumers between $5.4 billion and $8.8 billion more than what the administration's approach would cost between 1983 and 1985. That is on top of what the consumers would have to pay as taxpayers which would be between $350 million to $1.4 billion extra they would pay as taxpayers. Consumers get it two ways.

In closing, we believe that for all the above reasons, moving toward an excess base plan approach is unwise, and that the most direct, effective, and equitable alternative and that which is the easiest to put into action, is providing the Secretary with the flexibility to reduce the milk price support to a level no lower than $12.10 per hundredweight of milk.

In short, it is an alternative that truly benefits all the interests, all those who are concerned about the production and the consumption of this nutritiously unequivalent product.

I thank you.

Senator COCHRAN. Thank you very much, Ms. Haas.

Senator Boschwitz, I do not think they like your bill.

Ms. HAAS. I do not know how you can say that. [Laughter.]

Senator COCHRAN. Do you have any questions. There is equal time here.

Senator BOSCHWITZ. I will. I have to sit and listen, Mr. Chairman, to a gentleman from Borden talk about subsidization of exports, but yet he buys subsidized casein for the purpose of introducing it into our markets.

I have to sit and listen to him tell us that the Government should contribute more milk, and I would like to ask him what kind of contribution could the Borden Co. make, what percentage of its net profit does it make to charity? Do you happen to know offhand?

Mr. STEINKE. No, I do not, but I would say——

Senator BOSCHWITZ. I would suspect it is less than 1 percent.

Mr. STEINKE. I could get the figure and submit it to you.

Senator BOSCHWITZ. Fine. Submit it, please, for the record.

[The following was subsequently received by the committee:]

Borden's charitable contributions for 1981 were $2.12 million, which was 2 percent of its total domestic pretax income.

Of course, if we listen to producers, Mr. Chairman, as you well know, their attitude will be different. Quite clearly, the bill we have introduced will save $1.3 billion a year. I have no idea where Ms. Haas gets the figures that she gets, that it is going to cost the taxpayers more under a voluntary plan of reduction. None of them, other than Mr. Steinke, spoke about the cause for overproduction, really. Ms. Haas spoke a little bit about it, and that is the low price of feed. Nobody mentions the low price of cows. They just assume that the price elasticity is going to also bring elasticity of demand. There is no history of that in milk consumption.

As a matter of fact, milk consumption was not higher when a couple of years ago the price was $12, which they now suggest we return to. So I will defend my bill, Mr. Chairman, at the appropriate moment.

Senator COCHRAN. I wonder, in connection with the statement that was made by Mr. Tipton, going back in history to look at what happened when the support price was lower; you pointed out that production went down. Dairy farmers tell me though that if the price is reduced to $12, that what is inevitably going to happen is that dairy farmers will increase their production so as to maintain a higher level of gross income to help service the indebtedness and pay the expenses of operating, instead of reducing production, that it will have just the opposite effect and we will end up with more milk, not less. What is your reaction to that?

Mr. TIPTON. That is a very appealing argument, but it is a very unique economic theory that is required to support it. I have responded before—and I do not mean to sound flippant, but I wonder how much you would have to reduce the price in order to double milk production. I think that producers in fact are not going to increase production with the reduction in price. That has to—if they were, you would have to assume that they were acting economically irrationally right now, because if they could make more money by increasing their production, because of the price reduction, then they could still make a lot more money if they increased their production at a higher price.

Senator COCHRAN. What happens in the other commodity areas though is that when prices go down, farmers tend to plant more. They do not have any other choice—or a double crop, plant the wheat and soybeans and taking other steps to try to increase the dollar volume because the per unit price is lower. Is that irrational, too?

Mr. TIPTON. In a short-run phenomenon, I can see where a farmer would make an effort to increase his total dollars by increasing his production, but you have to assume that he has the capacity to do that. If he has got to add any capacity in order to accomplish that, then it seems to me that that would be irrational, and that is why I was saying you have to assume that they are producing under capacity now in order to say that they are going to increase production.

I think it is somewhat different with respect to acreage, because it is sitting out there frequently idle and there is an opportunity to bring more acreage into production. With milking animals, when they come time to come fresh, there is not much of a way of setting them aside. They really have to be milked. So I doubt if there is a very large opportunity for increased production.

Senator COCHRAN. What about the figures for the recent year and a half? You know, the support price has remained at $13.10, I believe, since 1980. Has there been a reflection of that stability in the marketplace? Has the retail price of milk and dairy products reflected the fact that there has been no increase in the support price?

Mr. TIPTON. Yes. As a matter of fact, the increases in milk prices for several years, while milk support prices were being set on the basis of parity and being increased semiannually, were in excess of the index for other food items. However, very recently milk prices, retail milk prices have come back into alinement with other food items, so they are not increasing as rapidly as they once were.

Senator COCHRAN. Do you have any observations about that, Ms. Haas?

Ms. HAAS. Not on that point.

Senator COCHRAN. Is milk still a good buy, compared to other——

Ms. HAAS. Well, that is a loaded question. There is no question but that milk is a good buy. There is no question about it being nutritionally important. But the fact remains that consumers today are facing these increases and it affects particularly poor people who do not have that leeway in their shopping expenditures, and what they give up sometimes is those most important products like milk and dairy products. And I do not think you want to have policies that will escalate the prices of, as I keep saying, the nutritionally unequivalent products, then you drive those people to buy substitutes for milk, and that is what has been happening as the price has increased. People unfortunately have been moving away from milk, particularly for snacks in the afternoon for kids, and those kinds of ways that is very important for a growing child.

Senator COCHRAN. What about the proposal that was mentioned I think by Mr. Mahan. He observed that in California they have a new approach to try to help increase the volume of milk consumption by changing the milk standards to include a high percentage of solids. Is there any position of the Consumer Federation or the Community Nutrition Institute?

Ms. HAAS. We do not, though Consumers Union has been very active and I believe testified in behalf, that they were supportive of that in the House hearings. I guess our position right now is that we have a critical problem on our hands and we want to solve that problem in the easiest, most direct fashion and that is why a clear reduction in the price support level is the one we feel most appropriate.

Senator COCHRAN. Do you have any notion about why consumption is down? I know this is a matter of immense importance to all of you, particularly those of you in the business of selling. You point out that the cutback in the milk program has caused a downturn in the sales to schools. But is that all of the problem? Why is there a downturn in consumption? Mr. Steinke, do you have any observations?

Mr. STEINKE. We do not have figures to show that consumption is down, Mr. Chairman. I think dairy product consumption is real flat. Our cheese consumption went up about half a pound last year. Butter is about even. Milk powder has not been going anywhere for a long time, so that does not really count very much.

While beverage milk went down a few pounds, it was not the kind of a drop which could have caused the surplus that we are talking about today, by any means. The surplus we have is not caused by a drop in consumption. Consumers are still buying milk and dairy products.

Senator COCHRAN. What about ice cream?

Mr. DECK. Ice cream consumption looks pretty good.

There is a wide variety of qualities of ice cream marketed at different prices and consumers have a pretty broad choice of qualities of ice cream.

I think, as Ms. Haas touched on, I think it reflects the general overall economy. There are an awful lot of people that, instead of buying a gallon or a half-gallon of milk, will buy it by the quart and run out and get by, and it is probably pocketed throughout the country.

I would say for Wichita, Kans., for quite a while they went along in a so-called prosperous pocket but now the aviation industry has suddenly slowed down, and that relates to the overall economy and so our unemployment is catching up with some other parts of the country.

Senator COCHRAN. Mr. Tipton mentioned the fact that after these support prices have been lowered, we have seen lower or at least more stable production. Has there been a corresponding decrease in price to consumers and could you assure this committee that if the support price were lowered to $12 that the consumer would see lower prices at market for the processed products?

Mr. TIPTON. I think that——

Senator COCHRAN. Would you pass that on or just put it in your pocket?

Mr. TIPTON. I think the fact of the matter is that every time that the costs are decreased, the decrease does get reflected to the consumers. It is difficult, I know, to take a look at this month's statistics and say here, I have found it, here is that decrease in the raw milk costs that showed up in the prices, because there are a lot of other costs involved in producing and distributing a half gallon of milk and often those other costs may offset the decrease.

But I do know for a fact that processor's profits have not increased. I do know for a fact that they are not in any way exorbitant. In fact, they are very meager, and if they were able to take advantage of those drops without passing them on, I would expect their profitability to be pretty substantial. The fact of the matter is we have milk processors going out of business at an alarming rate, and so it is not a very attractive business. So I can assure you that it is passed on. If you are going to ask me to prove it, I cannot.

Senator COCHRAN. Do the figures that you showed us prove it or do they indicate that that savings is not passed on?

Mr. TIPTON. I think that I did not introduce—well, maybe there are some in this study that have the food price indexes compared. Those indexes do indicate that with the stable price support, that the increase in milk prices has been much, much less, reflecting energy costs and other items, labor and what have you, but they still have gone up because the other items have continued to go up.

Senator COCHRAN. Senator Boschwitz, do you have any other questions?

Senator BOSCHWITZ. Did I hear Mr. Steinke say that milk consumption is going up?

Mr. STEINKE. No. Milk consumption is rather flat.

Senator BOSCHWITZ. I am sure that you are familiar with the decline of overall dairy production over a period of years and actually the production over a 30-year period just simply did not increase. In 1953 it was 122 billion pounds on a liquid basis; in 1979 it was the same, 122.8; now it is up to about 135. The population increased during that time. One of the principal problems of milk is the declining per capita consumption of dairy products.

Mr. STEINKE. Yes, sir, that is true over that long period of time. That is absolutely correct. I had in mind the last few years when we had suddenly found ourselves burdened with this surplus. I was not going back to the fifties.

Senator BOSCHWITZ. Ms. Haas, you say that people are moving away from milk and you talk about poor families who are being preempted from the marketplace. Are they moving to things that are cheaper than milk? Is that the idea? Most of the beverage sales that I see going up, the soft drink area, moving up in price much faster than milk is moving up and they seem to be the things that are increasing in consumption.

Ms. HAAS. I think that is true, but I also think that people are drinking water, which does not cost anything. I think that there has been a decline in per capita consumption, and this is a time that we should have seen an increase when we have such a bountiful supply. And I think that the only variable you have is the price and I think that there is no question. I have visited some of the dairy farms, farm organizations, and dairy cooperative board meetings even 5 and 6 years ago. I heard about the problem and the competition in the other areas, like fruit drinks and Coke. It is not only a question of imbalance in advertising or promotion, it also is a question of price and I think there is no question but there is a corresponding——

Senator BOSCHWITZ. You think that Coca-Cola is not going up in price as quickly as milk; is that correct?

Ms. HAAS. No, that is not what I said at all. I said that there is no question that there is a competition, but that is not the only factor. Again, it is the absence of having milk. It is not always the case that people are going from milk to Coke. There is no—I do not think there is any evidence on that at all.

Senator BOSCHWITZ. Well, one would think from looking at the consumption levels of those products that they seem to be rising. Perhaps the increase in their gross sales is as much attributable to their rising prices as to the rising consumption.

Who is the gentleman from California?

Mr. MAHAN. None of us are. We are from Florida and——

Senator BOSCHWITZ. I understand that the consumption in California is increasing due to their promotion of a "Two-Ten" product, that is now available in the Washington area as well. It is a very good product and the dairy industry is promoting it very aggressively. I see many differences in the dairy industry advertising and other competitive products such as soft drinks. The contrast between ads is striking and the contrast in growth of sales is just as striking and the contrast in declining prices is just as striking because if you ask a dairy producer, he does not think that his price is going up.

Mr. Chairman, my aide tells me that Mr. Tipton's assumption that you can turn on a few extra acres much easier than you can increase the production of milk, is an incorrect assumption. But my understanding of the problems in the dairy area are that the prices of feed are low, the prices of cull cows are low, it is simply more economically feasible and more economically sensible to feed the cow and increase the production of that cow and hopefully we will be able through the work of this committee and work with markets world over to see a rise in those commodity prices which undoubtedly will bring down the surpluses in the meantime. The voluntary plan that the producers are supporting will very quickly bring down the deficits that Ms. Haas was seemingly so concerned about, she will probably be back this afternoon urging us on to spend more money in food stamps, but nonetheless we will be able to quickly impact the cost of the dairy program if we were to adopt the voluntary program that the National Milk Producers wishes to undertake. I do not think it will be terribly complicated.

The whole farm system which is now organized on a county level through the ASCS should be able to handle most of the problems, at least in Minnesota, which is a State with the second largest number of dairy herds, should be able to handle them in a reasonable way without all this additional bureaucracy and cost that is spoken about. That is more in form of a statement, Mr. Chairman, than questions.

Senator COCHRAN. We appreciate having the benefit of your observations and again we thank each member of the panel for being here and we think your contributions to the hearing have certainly been informative to us.

Our next panel includes George Dunsmore, Commissioner of Agriculture of the State of Vermont; J. Roger Barber, Commissioner of Agriculture of the State of New York; J. Goold representing the League of California Milk Producers; and Paul Stone, a dairy farmer from Orwell, Vt.

Please take a seat at the committee table. We have copies of statements that have been prepared by you for which we thank you. We are already running into some time problems, and that is not your fault, it is ours. But because we are, we urge you to try to refrain from being repetitive. The ground has already been plowed. There is no use going back through it with the same plow. But if you do have observations that have not been made, we certainly encourage you to take advantage of this opportunity to discuss your thoughts with the committee.

We appreciate your being here and we invite Mr. Dunsmore to lead off.

STATEMENT OF GEORGE DUNSMORE, COMMISSIONER OF AGRICULTURE, STATE OF VERMONT

Mr. DUNSMORE. Thank you, Mr. Chairman. It is a pleasure for me to have the opportunity to share some thoughts with you today, and I think both myself and Commissioner Barber do come from a little different slant than most of the other testimony that has been presented. I will be very concise in that Mr. Barber's testimony will reflect a similar philosophy and then we will try to respond to questions. I would ask that the entire statement be submitted.[1]

Senator COCHRAN. It will be included in the record. All of the statements will be made a part of the record in full.

Mr. DUNSMORE. Thank you. I am George Dunsmore, Commissioner of Agriculture for the State of Vermont and I have come to Washington to discuss an issue that is of concern to both you and I but perhaps in my case more importantly to the 3,000 Vermont dairy farmers who are wondering what their immediate business prospects are.

I think at this point we all recognize that some kind of correction may be necessary to take care of the imbalance that we are presently facing. I also think that we all realize that the farm price for milk has essentially been frozen since October 1980, and I would urge caution in any corrective action. I had the opportunity of working down here for the Congress back in the mid to late seventies and we had similar concerns arise, and by the time all the solutions were laid on the table much of the problem had taken care of itself. So I would urge you not to jump.

If in fact we do come to a point where something has to be done, I think we need a proposal which strongly encourages commercial consumption of dairy products and I think my recommendations here today are two-pronged. In order to encourage that consumption, I think we need to do so something to be aggressive. I think the dairy industry can be faulted for being less than aggressive in advertising and promotion work historically. I think that we need to meet our competition eye to eye and really tell what a fine product we have and try to get that consumption pattern going in the other direction.

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[1] See p. 227 for the prepared statement of Mr. Dunsmore.

I think one good way to do that—and I think farmers would endorse that through a referendum—is to deduct a nickel, at least a nickel for promotion work. So I would encourage any legislative action you take to include such a clause, and I think that that has to be a clause that is mandatory on every farmer. I do not think there can be an ask-out provision. I disagree with the Farm Bureau's position on that.

The second suggestion that I would make is to establish the current class 1 price as the floor for that category of milk and thereby maintain the necessary incentive to insure a stable local base of production of fluid milk. We in Vermont export 91 percent of our product into the New England market, order one. Of that 91 percent, 54 percent of it moves out in fluid form.

I feel that we need to develop some kind of proposal that insures that that type of fluid production can continue and will continue. I think that an approach in that direction, where we establish the current class 1 prices as minimums and work solely in class 2 as manufacturing products for the purpose of price reduction, rather than an across-the-board $1 cut in all milk. It has many advantages and we find that manufactured product is slightly more elastic than fluid milk and thus if the price were to decline we feel the consumption would increase and I think that goes to the heart of Ellen Haas' concern about nutrition and having this product available for people.

Since this proposal will, barring unforeseen circumstances, eliminate the current surplus and bring Government purchases back to an appropriate level, I propose that this reduction of the manufacturing price be considered on an emergency basis only. There has been some expression—and I have had some questions as to following my recommended approach, will not that encourage long movements of fluid milk. I think over a longer period of time it would, but on an emergency basis it would not.

So I would suggest that this be an emergency basis, that it have a sunset provision at the end of 1 year, with the possible provision for extending it for 1 year if it is working well.

In conclusion, let me note that this proposal to establish the existing fluid milk price as a floor for that category of milk and to reduce the price of manufacturing milk up to maybe $1.70 could be implemented through the existing market order system. As a 1-year amendment to the existing price support legislation, it would provide the short-term solution to the current surplus problem which we need without monkeying up the price support and market order system which we all know has worked remarkably well for over 30 years.

It would reduce Government purchases of the manufactured dairy products which the CCC buys more effectively than would a

$1 cut across the board, while both would reduce total production by a like amount. The concentrated approach would increase commercial consumption more effectively and consequently it would reduce the amounts of milk which the Government would need to remove from the market in order to insure stable farm prices and consumer supplies. It would also protect the integrity of the local milk supplies in markets with high class 1 utilization and thereby eliminate the potential for uneconomic and inefficient movements of milk which would occur if local bases of fluid milk production were harmed.

With that, I would conclude my testimony.

Senator COCHRAN. Thank you, Mr. Dunsmore.

I think we will go through the entire panel first before we get to the questions.

Mr. Barber.

STATEMENT OF J. ROGER BARBER, COMMISSIONER OF AGRICULTURE, STATE OF NEW YORK

Mr. BARBER. Mr. Chairman, I appreciate this opportunity to speak with you and the committee about the dairy situation and the price support program.[1] It is of vital interest to agriculture and the economy and New York State as well, because we do have 18 million consumers and we are the third largest producing State in the total production of milk.

The action that Congress takes as a result of these deliberations will have a long-term impact on the vitality of not only the important dairy sector of New York agriculture but the Nation as well.

I am recommending to you and this committee that the target support level should not be reduced below $13.10 per hundredweight as of October 1, 1980. This minimum support price is reasonable and necessary to give dairy farmers the confidence in the future of their industry. Most signs indicate that in their production decisions, dairy farmers are already responding to lower milk prices in the prospect that they will fall below current levels. In light of this situation, I do not favor granting the Secretary of Agriculture unlimited discretion in setting the support price for milk.

Nevertheless, I recognize the reality of the matter and that some downward adjustment in dairy supports could be authorized. In that case, I am advocating a modification to the usual approach to adjusting milk prices and that would be to establish a floor under fluid milk prices at current levels, while allowing the manufacturing milk price to decline in response to a lower support level if that becomes necessary.

There are good and compelling economic reasons for such an approach, which are described in the statement that I am submitting for your consideration. It has been suggested that flooring fluid milk prices would tend to promote isolated markets and be inconsistent with the existing pricing formula. I would point out that I am proposing only a temporary plan and one which would maintain inter-market and inter-regional price relationships for fluid milk.

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[1] See p. 232 for the prepared statement of Mr. Barber.

The incentives or disincentives for moving fluid milk between regions would not be materially changed by flooring fluid milk prices. Fluid milk normally moves from surplus production areas to deficient areas as needed, and this would continue to hold true.

Related to the same issue is the question of whether my proposal would provide an incentive to transport fluid milk between regions. Again, the answer is that alinement of fluid milk prices would not be altered, so no greater incentive would be developed for inter-regional shipment of milk. Moreover, it would not be practical for large blocks of milk to be transported between regions for the purpose of pooling them in markets with higher utilization of fluid milk. The fact of the matter is that the cost of transporting fluid milk today is substantially greater than the transportation differentials provided within the Federal order system.

I also dismiss the idea that fluid markets could in some manner be served with reconstituted milk products. Most consumers——

Senator **Boschwitz**. Where are you?

Mr. **Barber**. I am skipping; just a very quick summary, Senator.

Senator **Boschwitz**. Would you repeat what you just said?

Mr. **Barber**. I also dismiss the idea that fluid markets could in some manner be served with reconstituted milk products. Most consumers prefer fresh milk products. Dried milk is available in supermarkets for those who wish to avail themselves of it. Dairy farmers would not benefit from unpriced reconsistituted milk and there is little evidence that its use would markedly reduce the surplus of nonfat dry milk.

A much more enlightened approach would be to use nonfat dry milk to fortify fluid milk if the marketplace so desires.

If this subcommittee would like, Dr. Ed Johnston, who is on my left can share with you some statistics on supply elasticity we use to determine the response to certain price changes and our estimates of how producer income and milk production would be affected by region and for individual markets with the proposal that we have presented to the committee to take a look at on flooring fluid prices.

Senator **Cochran**. Mr. Barber, we appreciate very much your testimony and we will have some questions later.

J. Goold, representing the League of California Milk Producers.

STATEMENT OF JAY GOOLD, EXECUTIVE VICE PRESIDENT, LEAGUE OF CALIFORNIA MILK PRODUCERS

Mr. **Goold**. Thank you, Mr. Chairman. I have a statement but I do not know whether it has been given to you or not.[1] I would briefly like to go through it because we are speaking to a specific issue. We know that other representatives of the other districts are bringing forth other suggestions. We do not want to be repetitious in that consideration.

I know that throughout the course of time there has been some finger-pointing to California, saying how much milk was coming from California into the Federal storage system. So on the first page of our testimony, we have indicated the production in some various States—we have set them out—indicating that California is producing in 1980 about 13 billion pounds of milk, with 23 million people, for about 573 pounds per person, and consumption is running somewhere in excess of 600—almost 675 in total milk equivalence. So even though the milk we currently have coming into the Federal storage program, we are not totally self-sufficient but as a matter of properly orienting our marketing and production mix. and I believe we are going to be doing that in the near future.

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[1] See p. 237 for the prepared statement of Mr. Goold.

We are somewhat concerned about plans, regional plans that have just been discussed. The unique situation of California is geography. We are over 700 miles long and we know what it costs to move milk. We move milk throughout the State every day and we are concerned about the domino effect that may be created by regional plans and a very careful observation of those needs to be made. Milk can move from one market to the next and then its milk moved to the next market and back and forth, so we are very concerned about that type of a plan and we want that to be examined very, very closely.

I would like to ask you to consider for a few moments a unique plan. The Senator was asking some questions about California a few moments ago. I would be happy to answer those.

One of the things that we have relative to that, Senator, is about 12 years ago we established higher standards for milk and a true identity for each category of milk. We had three categories, as you do in the other parts, but they are somewhat different and I would like to point those out to you. In fact, there are a few concerns at about the middle of my document, and you will see it laid out right there in the middle where we want the change and suggest that this would be an effective part of the program, to change from the standards of whole milk as they now currently are in the Federal level to the standards as we have them in California, and I identify three specific——

Senator BOSCHWITZ. What page are you on?

Mr. GOOLD. Page 5—change from the whole milk standard of 325, 825 to a milk standard of 3,587, identify low fat as 2 percent fat and 10 percent solids, for a total of 12 percent total solids, and then nonfat as the 0.25 and 9. This is the fortification that the gentleman from New York spoke about. We believe that it has been significant.

I would like to refer to the bottom of that page where we indicate that in 1980 consumers in California used 46 million pounds of solid nonfat as they purchased the products that were fortified. In 1981 they used 48 million pounds, again an increase. Those 2 years resulted in a savings to the Government of purchasing about $86 million that would have had to be purchased had it not been put into fortified products, and that is significant.

I would ask you to look at the next page——

Senator BOSCHWITZ. In other words, you used 46 million and 48 million pounds of nonfat dried milk, fortifying to bring it up to .210 or .259; is that right?

Mr. GOOLD. Most of it in the 210. Some of it went into the whole milk on a seasonal basis, but if you would turn to the next page, Senator, this is a delineation by month for the last 10 years of the amount that has been going on, and you can see in January 1981, the upper left-hand corner, we were only using 1.6 million. You come down to 1981, 10 years later, and see we are using 4, over 4, 3.8. This is the exact trend that has gone on in the movement of the consumption of that low-fat product. These are documented and audited figures as opposed to theoretical computations of what it might take and what it did take. We can show you if you look at the bottom line there, we started out in 1981 using 22 million pounds, and we concluded in 1981 at 48 million pounds.

The thing that you were speaking of is on the next page, where it is titled "Annual Per-Capita Sales of Fluid Whole, Low-Fat and Skim Milk Products." In the far right-hand column, it shows that California started out with 256 pounds per person in 1971; in 1980, on comparable census data, we have dropped only 1 pound on fluid consumption. We believe a significant relationship exists, one, with the quality of the product consumers are getting. They can buy the whole, the low fat which has to be 2–10, it cannot be 1–10 or it cannot be 1–8 or anything else, if it is low fat it is 2–10, if they want to go to something different, they go to the nonfat which is a 9.25 total solids product.

We believe that is significant, and we believe that the factors there show that our decrease in sales has been significant, when it is only one-half of 1 percent.

Senator BOSCHWITZ. Pardon me, but what does FO mean? Is that——

Mr. GOOLD. That is a comparison of similar Federal market orders.

Senator BOSCHWITZ. The whole?

Mr. GOOLD. Not the total but similar orders.

Senator BOSCHWITZ. Similar orders?

Mr. GOOLD. Yes. There is a publication that takes into account a summary that they have selected. It is a USDA publication.

Senator BOSCHWITZ. And your 0.259, are those the figures for the skim milk?

Mr. GOOLD. That is included in the class I product, yes, and that is the nonfat product or skim, as it would be called.

Senator BOSCHWITZ. What sort of taste is that? Is there more body to it?

Mr. GOOLD. Well, it has less body than the low fat and it has a little more body than the standards for the national skim milk.

Senator BOSCHWITZ. The 2–10 has a great deal more body to it when you——

Mr. GOOLD. Absolutely, because it has 12 percent solid.

Senator BOSCHWITZ. And what is the normal solid level to the 0.25, somewhere about 4 percent, is it not? The normal skim milk, what is the normal solid level to that?

Mr. GOOLD. The normal total solids level for skim milk——

Senator BOSCHWITZ. Normally, without adding the nonfat?

Mr. GOOLD [continuing]. Would be about 8.7.

Senator BOSCHWITZ. Normal?

Mr. GOOLD. Yes, in the Federal orders.

Senator BOSCHWITZ. So you add very slightly to it, is that correct?

Mr. GOOLD. In that category. In the skim milk category, Senator, you have to be very careful when you are down in the skim milk category because that category is not expanding in sales either in your area or in ours. It is the low-fat category that is expanding in sales, as evidenced by the same page that we are looking at. You can see that low fat in the Federal orders has gone up 102 percent and in California it has gone up 110 percent in that decade, while skim sales have only gone up 2 and 6, and yet on a poundage basis very insignificant. It is this great area of the low fat that we have got to look at. It seems to be the Cadillac of our market and that is what we would like to continue.

Now, I call your attention to the next page that has the pretty yellow and red line across it, because I want to be very specific. You can see that in 1981, in the 2-percent category, most of the product had added solids to it or a fortified product, and yet as you come across those two lines in 1980 you can see that there has been a total switch. We believe that is due to some marketing and the incentives that are created by the range concept allowed under the Food and Drug's present administration of these standards. We believe that it is built right into that and the competitive process, people are going to go down to the very lowest product that they can get, which is the 0.5825, and that is it.

In California, everyone putting out a low-fat product, every marketer of milk puts out 2–10 and they compete on a different basis than the quality of the product. We have not reduced ourselves to the lowest common denominator and that is why we come to you today saying it is important that we consider the fortification of these products.

Now, this concept has been endorsed to my knowledge by almost every marketing organization of milk in the United States. There is a petition currently before the—or is being developed to be presented to the Food and Drug Administration to change this. We submit to you that the administrative process to accomplish that are so long and lengthy that this Senate needs to take some consideration and try to move that more expeditiously, either legislate it or a sense of the Congress or some direction to the administration to speed up that process.

I conclude by saying, if you will look at the very last page, Senator, I know these figures are disputation, but I submit to you that the figures from California are audited and are substantiated by the State of California as being accurate. So with California at the very bottom of the page there, we say that California, representing 11.37 percent of the product, used 46 million pounds of solid nonfat, and that equates to about half a billion pounds of milk equivalent. If the other 88 percent had used the same amount, we would totally in 1980 have used 4.7 billion pounds of milk equivalent in order to fortify to these standards on a national basis. That is significant when you look at the accumulation of product that the CCC has—in 1 year 4.7 billion and the next year another 4.7 billion, it is cumulative as are their purchases of storage.

We believe it is very, very significant and should be considered very seriously by this body.

Thank you.

Senator Cochran. Thank you very much, Mr. Goold.

Mr. Stone.

STATEMENT OF PAUL STONE, DAIRY FARMER, ORWELL, VT.

Mr. STONE. I am Paul Stone. I am a dairy farmer from Orwell, Vt. I appreciate the opportunity to present testimony before this committee.[1]

I thought perhaps it would be good for us to look at the farmer's point of view. We have heard from the ice cream people and the processors. I think we are talking about a program here that has significant effect on all farmers. I have come down here at my own expense. I am not connected with any organization. But I do feel that I represent the views of many farmers and I feel I am in the same position as many farmers.

My wife and I operate a 70-cow dairy farm, together with our four children. We have been in the dairy business for approximately 10 years.

I think when we look at the proposals before Congress, the Senate and the House, that they can be summarized in two categories: No. 1, some kind of production limitation or base plan, where milk is supported at a fairly level parity, or some sort of a price cut plan.

It seems to me that the price cut plan is designed to force farmers out of business. I do not see any other way of reducing milk production with that plan.

With a production limitation plan or quota plan—whatever you would like to call it—I believe that we can reduce Government costs significantly, certainly below the $2 billion that is projected to cost the Government in 1982. I think that the production limitation plan would be the fairest method to farmers to control our current milk surplus. I think there is no question but that there is too much milk and that we do need to do something about it.

Now, in my testimony, on page 4, you will find a table which I prepared. This is based on what will happen to my farm under four different plans. No. 1, if we continue at the current level of production under the current plan, I use that as a comparison to compare the other plans to.

Now, if we go to a base plan, I assume that since we are overproducing by approximately 10 percent, we will be required to cut production by approximately 10 percent. And to summarize this table, my net income, if I cut production 10 percent, my net income will actually increase slightly, by $895. I am talking about net income. The reason it will increase is because milk will be supported at a fair price and I will have reduced costs in producing the milk.

If we go to the administration's plan, where basically they want to cut milk to $12 per hundredweight in January of 1983, that is a $1.10 cut from the support level now, my net income will be reduced by $8,812. Now, that is considering that I will increase production by 10 percent.

Now, we were talking about the rationale of how dairy farmers look at this situation a few moments ago in the earlier panel. I do not think you can equate this to normal business reactions because here I am in a business where I have got a $400,000 or $500,000 investment and the Government is talking about ways to put us out of business. I am thinking of ways to keep myself in business. Now, what am I going to do?

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[1] See p. 243 for the prepared statement of Mr. Stone.

Am I going to jeopardize this investment in time and money and effort and my life, am I going to jeopardize this by taking a price cut and not increasing milk production to try to survive?

My point is I have got two choices: I can either quit and get out—except that this is a very poor time to do that because of the fact that the price of cull cows and the price of cows, land and so on is all depressed—or I can increase my production and try to spread my fixed costs so that I can stay in business. And that is exactly what I will do, I will be forced to do if the price is cut, and I currently have the facilities to do that.

Now, I think many, many dairy farmers are in the same position. Now, if we were to continue present production and simply take the $1.10 price cut the administration proposes and not increase our production, we would suffer a $15,015 net lost income, and with an operation where income and expenses are pretty well balanced—that is, expenses, including my living expenses, debt service and all the other expenses, with no fat, no tremendous profit being shown—how can I take a $15,000 cut? I cannot. I have got to do something to overcome that and I think increased production, as I see it, is the only way to do it.

Now, in Vermont we are limited to the kinds of other production we can get into. We are not in the Corn Belt. We are not in the Wheat Belt. We cannot produce cotton. There are very few things that we can turn to in our situation, and so increased milk production, as I see it, in studying other possibilities, is really the only thing that we can do.

Senator **Boschwitz**. Mr. Chairman, if I may interrupt this witness, you heard one of the other witnesses earlier speak about the fact that milk producers could not so readily increase their production as a farmer who is tilling the land because he could till more acres. I am not quite sure where they would come from. My aide, who is more familiar with farming certainly than I, said that there is a greater potential over a 2- to 3-year period to bring more dairy cows into production than there is to bring more land into production. I wonder if you would comment about how easy it would be for you or how difficult it would be to increase your milk production in the event that the price went down and you felt that your cash flow requirements required that you increase production?

Mr. **Stone**. I think if you look at the statistics, it would be rather easy. Right now cow numbers have actually increased in the last year or two and the number of heifers ready to come into production or ready to come in soon have increased significantly. The animals are there.

Now, in my case, I have about a 70-cow herd and normally we remove 15 to 20 cows a year and replace them with new cows. In other words, we cull 15 to 20 a year. On hand right now I have got 31 bred heifers ready to come into production in August, September and October of this year. You see, that is way more than normal culling. In other words, I can increase the number of animals in my herd by approximately 25 percent very quickly, and I think many farmers are in the same position.

The price of bred heifers is down and that indicates to me that there are many of them around. I believe that nationwide we have the capacity to produce more, especially in the situation now with grain prices being very low comparatively speaking to 2 years ago.

Senator BOSCHWITZ. I think, Mr. Chairman, that it is important that that be emphasized in the record, that the price of these heifers is low, which is an indication that there are, as the gentleman says, a lot of them around and that milk production, as you drive down the price, can indeed rise rather quickly and that we may have larger surpluses which may cost the Government indeed more than the program costs today.

Mr. STONE. I think that is true in the short run. In the long run I believe that the price cut would work and would force farmers out, and I submit to you, is that the way we are going to go?

We in the fifties had approximately 2 million dairy farmers and the figure I hear today is around 300,000. That is a rather significant cut in only 30 years. Now, do we want to continue that trend?

To me we are talking about a national problem, a national situation in which consumers and the dairy farmers must be recognized. I think that the consumer, if you look at the price increases of milk historically have been less than the rate of inflation. I think the farmers have saved the consumers considerable amounts of money in the past, and I think this should not be forgotten when we talk about the correction to this problem.

Senator COCHRAN. Mr. Stone, are you of the opinion that other dairy farmers in Vermont would react the same as you would do if the price were lower than $12? Do they have the capacity, many of them, or just a few have the capacity to increase production quickly?

Mr. STONE. I do not have any statistics, but my feeling is that many of them are in the same position that I am in. As an indication of what farmers' reaction is now, there are very few farm sales this year so far. As a matter of fact, you have to look a long way away from home to find anybody selling out of business, and I believe people are waiting to see what is going to happen.

The heifers are there. They are not going to slaughter. They are there. The cows are not going to slaughter. In my own case, from December 1981 until about a month ago, I did not sell one cull cow, even though some of them were producing very low amounts of milk, even though the extension service said I should because of the economy of culling. Well, the cull prices were very low and my feeling is that production record is very important, and I think farmers are waiting to see what is going to happen. I think the capacity is there.

Senator COCHRAN. I am curious to know what the reaction of Mr. Barber and Mr. Dunsmore is to the suggestion from Mr. Goold about the change in milk standards. It is very appealing, based on the statistics that are included on the last page of his testimony that he referred to, the increase in utilization of such large quantities of product by making a change in the standards.

Mr. DUNSMORE. I tend to react favorably, maybe not in total but in certain product lines.

Senator COCHRAN. Mr. Barber?

Mr. **Barber**. In New York, about 3 or 4 years ago, we established standards for butterfat in whole milk at 3.4, which is higher than the Federal 3.25. In the East we have a little different situation in that we do not have the clear identity of a market area as they do in California because of the mountains and other regions, other geographical factors. So it would be very important to have a standard on a much broader basis than the single market, and I think we would certainly endorse standards either regionally or nationwide that would be above the present level, particularly on the 2–10, which sounds like a very appealing product, one that has had a lot of support among consumers.

Senator **Cochran**. What has been the consumer reaction? I wonder, Mr. Goold, have you noticed any correlation between changes in standards and purchasing?

Mr. **Goold**. Well, the whole trend, Senator, has been toward the low-fat product, as you notice by the statistics. I think you would be interested in a comment of Mr. Harry Schneider, representing Consumers Union and who publishers Consumer Reports, at the House hearing the other day. They asked him the very same question and he stopped for a minute and he said, well, I had better refer that question to Mr. Goold, and then he came back and he said, no, the reaction of the consumers in California has been very, very good to this type of product, they like the product. I have sat across from Mr. Schneider as an advocate many times at milk hearings. I was pleased by his statement.

Senator **Cochran**. Senator Boschwitz, do you have any questions?

Senator **Boschwitz**. How do you advertise the 2–10 lowfat supplement milk?

Mr. **Goold**. On the carton it is indicated 2-percent milk, protein fortified.

Senator **Boschwitz**. What kind of advertising campaign do you have in California with respect to milk products?

Mr. **Goold**. The producers themselves set aside 1 percent of their gross income to advertise milk. This year they will have in the milk advisory board's budget for advertising and promotion somewhere around $18.5 million for the promotion of milk per se. They do not break it down as to whole and low fat. They just advertise milk and let the consumer make the decision.

We would advocate the check option spoken of now, the 1 percent of the gross income. We do not support what is being suggested, a nickel a hundredweight. We would much prefer the 1 percent of gross income.

Senator **Boschwitz**. That would be about 2½ times as much.

Mr. **Goold**. Yes.

Senator **Boschwitz**. As you heard me say before, I am quite a critic of milk advertising. I think it is too bland. I do not think it is aggressive enough. If I were advertising milk, I would take a 12-ounce glass of milk and put it next to a 12-ounce can of Coke and put the prices underneath it and would not talk so much about the nutritional value, as everybody knows that. I would talk about the dental bills that people would save and how much a family would save over the course of a year if they drank two additional glasses of milk.

I hope the milk industry will be more aggressive in its advertising.

Mr. GOOLD. Certainly the Milk Advisory Board of California is trying to do that. They have changed agencies three times in the last 18 months in an effort to be as aggressive as they can. When they spend $18 million of somebody else's money, they want to get the very best from it that they can.

May I make one more point, Mr. Chairman, on this particular point. If we look at fortification, we must remember—and I am using a round figure—there is 105 billion opportunities to sell milk because most of the milk is sold in an 8-ounce container times the amount of milk sold, it comes out to about 105 billion units. You do not need very much more in each one of those units to increase it, and that is what we are suggesting.

Senator BOSCHWITZ. Do you want to comment about the advertising, Mr. Barber?

Mr. BARBER. We feel very good in New York that our producers have four times approved a statewide milk marketing order, and the last time they even approved an increase in the amount and now our farmers are contributing 8.5 cents per hundredweight, which amounts to $9 million annually in our market. Some producers naturally feel they would like to contribute more, but that is a—it is not as adequate as California, but we feel very pleased with the fact that our producers are contributing at that level.

Mr. DUNSMORE. Senator, I feel that that is where the solution really lies, is it an underconsumption problem we have in this country. It is not an oversupply problem. In Vermont, farmers are by law—and I think quite happily—contributing six-tenths of 1 percent at this point and over and above that 80 percent of them are contributing close to 1 percent, so they are committed to advertising and I think increasingly committed to that type of thing. I fully agree with you, as I said at the onset, that we have been less than aggressive historically. We have to change that side of our business.

Senator BOSCHWITZ. As you know, Mr. Barber, I do not quite understand what would happen to the price of milk of fluid milk under your plan.

Mr. BARBER. Well, to implement this plan, it really could be very simply done either by two methods, either by minor amendments to the existing legislation, which would establish a floor on fluid milk prices in all markets, or it could be a brief nationwide Federal market order hearing which would just be limited to that one issue, so it could be done very quickly and very easily.

Senator BOSCHWITZ. How would the price on the milk that is used for nonfluid purposes be established? Did I miss that in your——

Mr. BARBER. Well, the support level then would be as it presently is, would only be on the manufactured price. It would not have a full impact across the board on all prices.

Senator BOSCHWITZ. There would be no support at all on the products.

Mr. BARBER. No. If there is any lowering in the support price, it would only be on the manufactured milk, because there would be no lowering of the support on the fluid milk.

Senator **Boschwitz**. That would require a rather steep decline in the support level of the nonfluid milk, the milk that is used for nonfluid purposes, is that correct?

Mr. **Barber**. We do not think so. In fact, we think the main advantage of the plan is that most studies indicate that there is more elasticity in demand on the manufactured, so therefore a similar reduction in the price of manufactured would pass through to the consumer much more quickly and increase the consumption of the manufactured, the cheese, the yogurt, the ice cream.

There is very little incentive for the retail outlet or for the milk processor to pass through any reduction in fluid prices because most studies indicate that there is very little response to price on fluid milk but much greater on the manufactured.

Senator **Cochran**. What about the impact on those producers that just produce grade B and C milk? There are some 100 dairy farmers in my State, I am advised, that would fall under that category. You are going to do them in, are you not, with that?

Mr. **Johnston**. I think the impact would be greater on the grade B under a plan of this type but, of course, it does depend on how much the support price would be reduced. It may not be necessary to reduce it as much as the administration has suggested.

Mr. **Dunsmore**. We feel that with a reduction across the board of a dollar per hundredweight in the State of Vermont, we can expect 25 percent of our farms deleted, and that is somewhere in the area of 750 to 800 farms. We feel that there is something in every market order in the proposal that we offer in that you are at least holding a certain percentage within every market order stable or allowing it to increase, and on a short-term basis, I do not think that it would have the effect of driving a great number of farmers out of business.

Senator **Boschwitz**. It is very disturbing to me that the New York suggestion which is currently supported by the State of Vermont, would distinguish between dairy producers. To the best of my knowledge, that has not been done before and, in my judgment, the result of that is really to turn farmers against other farmers. As you know, in all Middle Western States, the percentage of the milk production that goes to fluid use and to manufacturing use is far different as it is in your State. You mentioned 54 percent a little earlier, and my figures show 55, and I show for——

Mr. **Barber**. It is 42 for fluid in New York.

Senator **Boschwitz**. I have for eastern New York and northern New Jersey 42, another portion of New York it is a little different. But in Minnesota and our whole region of the country, it is 16. So you would be very heavy penalizing Midwestern farmers. You certainly would not be penalizing the farmers of California. I cannot find in my charts here what it is in California, but I would imagine it is quite high, the amount that is used for fluid purposes.

Mr. **Goold**. 48 percent.

Senator **Boschwitz**. 48 percent? I thought it was lower than that. I think that your point that there is a greater elasticity in the manufactured products is an interesting one. Do you have any studies that talks about that? I would be interested in seeing a copy of the study.

Mr. **Barber**. We will send that to you.

Senator BOSCHWITZ. Fine.

Mr. BARBER. The other thing that is interesting to note is as recently as 1960, I believe it was, that the class I price was 44 percent higher than the manufacturing price, class I, of fluid milk. Now——

Senator BOSCHWITZ. 1960?

Mr. BARBER. As recently as 1960. Now it is only 9 percent. In other words, the fluid price today is only 9 percent higher than manufacturing. So historically there has always been a real incentive to have the fluid milk supplies produce close to the market to prevent or discourage uneconomically long-distance hauling of fluid milk. So this proposal would nowhere near approach the 44 percent that was in existence in 1960, but it might raise it—it would raise it a little bit, it would increase that spread a little more than the present 9 percent.

Mr. DUNSMORE. But I do not feel that it would bring about any inordinate movement of long-distance movement of milk. We recently had a dairy go bankrupt in our area and it affected about 110 farmers in our area, and they are paying up to $2.50 a hundredweight to transport that milk right now to a point where it can be processed, across the State of New York, as a matter of fact, and that is just not going to be able to continue. That in itself is—just that transportation is going to drive those farmers out of business.

Senator BOSCHWITZ. I have great difficulty distinguishing different formulas. We have given, through the milk marketing orders setup, some great advantages to farmers. We operate under disadvantages enough without having our manufacturered milk, whether it be in Nebraska, Minnesota, take the lowest price as well.

I think that the National Milk Producers Federation's plan, which as you know I have introduced here in the Senate, does not make distinctions among farmers and your plan does—directed to States that have a lower fluid milk production. If you want to equalize things, equalize the milk marketing orders or we will start sending milk in powdered form that you spoke about, Mr. Barber, to New York and then add some vegetable oil to give it a better taste, so that it will compete with milk on the shelf. We are not suggesting that, but——

Mr. BARBER. Good. [Laughter.]

Senator BOSCHWITZ. But we are stunned by the suggestion that all farmers, who produce more milk for manufacturing purposes, should be made to inordinately bear the brunt and cost of the surpluses to which they have not contributed, at least not beyond their production.

The process of the milk market, as you know, is the one part that is elastic and is growing. We have some hesitation about being penalized, as your plan would penalize us. I wonder if you would address yourself to that.

Mr. BARBER. Well, I am sure you are probably familiar with the fact that the South Atlantic region, which is comprised of eight States, since 1978 has increased its milk production less than one-half billion pounds and still produces only about what it consumes in fluid, plus small reserves; where in contrast the East Central region which you referred to has increased its milk production by 2.2 billion pounds.

Senator **Boschwitz**. Our area?

Mr. **Barber**. Yes.

Senator **Boschwitz**. Has increased its production by 2.2 billion pounds?

Mr. **Barber**. From 1978 to 1981.

Senator **Boschwitz**. And your area?

Mr. **Barber**. In our area——

Senator **Boschwitz**. Half a billion pounds?

Mr. **Barber**. Probably so.

Senator **Boschwitz**. We produce more.

Senator **Cochran**. Because we have to have a meeting of the full Committee on Agriculture, we must conclude testimony from the panel that is with us now. We want to thank you for being here and for the quality of the testimony you have given the subcommittee. It certainly will be very helpful to us as we try to resolve this problem in the dairy industry.

The subcommittee will now stand in recess for a period of 15 minutes.

[Short recess.]

Senator **Cochran**. The subcommittee will come to order.

We will continue with our hearing on the proposed revisions of the dairy support program. Before we get started with our third panel, I will recognize Senator Huddleston for any comments he would like to make.

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

Senator **Huddleston**. I thank the chairman. I just wanted to express my appreciation to the dairy folks for being so understanding here this morning. We do not profess that the subject matter that has just been dealt with is as important, certainly no more important than the dairy issue. The dairy problem is one that I have been very much concerned with and have been working toward trying to solve, too. When the ox is in the ditch, you know, you have to utilize the options that are available to you. With tobacco the meeting just concluded happened to be one of them. Let me assure you that, we will study very carefully the testimony that this subcommittee develops and work with everybody in trying to solve problems that may exist in the dairy industry.

Thank you.

Senator **Cochran**. Thank you, Senator, very much. And we thank all of you for your patience in waiting.

Our third panel consists of Donald Randall, who is executive vice president and general counsel, National Independent Dairy Foods Association; accompanied by Harry Shupe, counsel; Jim Neu, Neu Cheese, Hartington, Nebr.; and Joseph Oberweiss, Oberweiss Dairies, Aurora, Ill.

We welcome you to the hearing and, Mr. Randall, you may proceed.

STATEMENT OF DONALD A. RANDALL, EXECUTIVE VICE PRESIDENT AND GENERAL COUNSEL, NATIONAL INDEPENDENT DAIRY FOODS ASSOCIATION, ACCOMPANIED BY HARRY SHUPE, COUNSEL

Mr. RANDALL. Thank you, sir. We appreciate the opportunity to present this statement at this subcommittee's hearings and we are here on behalf of the independent dairy processors and distributors located throughout the United States. Our membership is composed mainly of small family owned proprietorships, partnerships and closely held corporations engaged in various aspects of the dairy business. We also hope that we present a broader view of the thousands of independent dairy farmers, processors and distributors who are also small businessmen, and millions of consumers and taxpayers.

NIDA's principal objective in presenting this statement is to focus the attention of members of the subcommittee on solutions to the critical surplus problem from the position of the independent processors and handlers. We oppose certain policy recommendations and specific legislative proposals which we believe will mislead the Congress in its task of developing a much needed rational and effective national dairy policy.

NIDA strongly endorses an approach that will stimulate a return to the open and competitive marketplace. We oppose the creation of extensive authority for new Federal or State regulation. We oppose any new legislation that spawns sprawling new Federal bureaucracies.

The NIDA members support H.R. 6404 and S. 2533, the administration's bills, giving the Secretary the necessary discretion to set surplus reducing support prices, and we would subscribe to Senator Hawkins' position that there should probably be a floor under it.

The paramount issue before this subcommittee and Congress must be to develop a dairy policy and new authority that will best serve the public interest. In achieving that goal, we will also well serve our Nation's dairy farmers and those involved in the processing and marketing of dairy products.

NIDA's members are ordinary businessmen collectively employing thousands of people in this industry. Our customers expect and depend upon our quality brand name products. There is also a proven place in the industry for nonbrand marketing and promotion. Regardless of any new promotional plans, the decline in per capita consumption can and will be reversed. But it will require a coordinated industry-Government effort.

We need to sell more dairy products under normal competitive market conditions. Long-term success is part of that essential market discipline that comes from the need to produce a competitively priced quality product at a profit. We cannot rely upon cost increasing promotional plans and governmental support to pay our way or assure our sales. Neither can we rely upon high cost subsidy plans and new Government regulations to solve the surplus problem.

NIDA subscribes to the free market philosophy encouraged by this administration.

NIDA's members are concerned about radical changes in certain producer supported legislative proposals. These are a departure from the historic principles of free enterprise which have largely governed the dairy processing part of our agricultural industry. We oppose S. 2587.

This massive intervention into the business lives and basic decisions of dairy farmers' processors and distributors is unacceptable, unworkable, and wasteful.[1] Bases, quotas or supply management programs are a backward step, rather a step in a dangerous direction.

NIDA opposes milk production bases, quotas, and supply restriction plans for the reasons that they will create a special class of existing producers; essentially lock out new producers and remove incentives for efficiencies of scale, innovation, and operating techniques.[2]

Regardless of the assurances of their promotors, these proposals: Will not immediately reduce excessive production; will not result in increased exports nor consumption, will create a massive overseeing Federal and State bureaucracy, will reward the inefficient producer and penalize efficiency; will increase costs to processors, distributors, and ultimately consumers;[3] will freeze into the system those large producers from the sunshine States outside of the natural milk shed areas;[4] will enhance the large corporate producers; and will not stop the attrition of family dairy farms.

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[1] "An Analysis of Proposed Changes To The Nation's Dairy Policies—1982"; Milk Industry Foundation, May 1982, pp. 28 and 33.

"Individual production histories would be determined and audited for each of the nation's 324,000 producers initially and on a continuing basis. Special procedures also would be developed for assigning bases to new producers, and for adjudicating disputes at local, state and national levels." Gunderson bill, MIF p. 28.

"The proposal would also create a large and powerful bureaucracy, even though it could use existing USDA field operation staff for many functions. The proposal is effectively a 'base excess' plan with each producer's fiscal year 1982 marketings providing the initial base." Boschwitz Bill, National Milk Prod Fed., MIF p. 33.

[2] "A Report of the U.S. Department of Justice to the Group On Antitrust Immunities;" January, 1977, pp. 252 and 254; also MIF Analysis 1982, pp. 25 and 29.

"Efficiency is sought through regulations and performance standards rather than market forces. In addition, regulation of economic conduct inevitably injects equity as an issue among those regulated, an issue not likely to be solved to everyone's satisfaction when the flow of product to market is regulated." DOJ Study, p. 250.

"Class I base plans do not appear to work effectively in practice, however . . . In addition to their questionable effectiveness, Class I base plans may also have some undesirable side effects. The most obvious is that there is erected a barrier to entry by producers who do not have bases . . . Base is expandable under the federal order Class I base plans, although a time requirement establishes a partial entry barrier. If the amount of base were fixed, then monopoly rents would accrue to the original base holders." DOJ Study, pp. 252 and 254.

"Those now producing milk could control production and entry of potential competitors. Production could be frozen in current locations, both local and interregional competition restricted." MIF p. 29. (Gunderson bill)

". . . While new entrants or efficient producers wishing to expand would be charged levies on their excess production; without opportunity for rebate." MIF p. 35 (Boschwitz-NMPF-bill)

[3] MIF Analysis, 1982; pp. 29 and 33.

"By restricting supplies while increasing farm prices, this program (Gunderson Bill) would sharply increase consumer prices, and reduce consumption. Consumers would pay $7.1 billion more for about 2.8 billion pounds less milk over the next three years compared with current law." MIF p. 29.

"Like the Gunderson proposal, the NMPF proposal would both restrict supplies and increase prices for producers . . . The result would be higher consumer prices and lower consumption. Consumers would pay $3.7 billion more for 1.2 billion pounds less milk under this proposal compared with current law." MIF p. 33.

[4] Quotes from Administrator Schine, Order No. 4; Stewart Huber Quote, Kansas City Symposium; MIF Analysis pp. 29 and 35.

Continued

Base and quota systems have failed to reduce excessive milk production in Pennsylvania and have failed to accomplish their purpose on other commodities, or have resulted in costly unacceptable allotment systems.[5] Tobacco allotments to large corporate farmers is just one example.

NIDA opposes referendums of dairy farmers for the quotas, bases or supply management schemes. In particular, we absolutely oppose block voting by producer organizations for members on any issue, order or program. It is not democratic and the independent farmers are not properly represented. Regardless of proposed safeguards, thin procedure leads to disenfranchisement of farmers and serves to concentrate power at the top of producer organizations.[6]

NIDA opposes checkoffs, deductions, or assessments of farmers for funds for promotions or for operations of boards or commissions or for penalties for overproduction. A truly voluntary system of funding nonbrand advertising and promotion must be developed. The funds must be raised fairly, strictly accounted for, and disbursed equitably for the common benefit of everyone in the industry.

The creation of the so-called national dairy boards, National Dairy Promotion Board, or Federal Milk Board are strongly opposed by NIDA for the reasons that they would be given excessive powers over support prices, prices paid to farmers, national milk supplies, support levels and surplus acquisitions and sales.[7]

This power in the hands of the producers to restrict milk supplies, set prices on national levels, and execute penalties is enormous, and threatens the very economic freedom of independent producers and processors, particularly with respect to access to the confidential business records of the processors. It is a giant step toward socialism which is not warranted by the current emergency.

The boards would be created by excluding from membership anyone except nominees from large regional producer organizations. They would represent the bureaucratic management of these

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"The five states that account for the largest share of rise in milk production from 1975 to 1981 are California, Minnesota, Pennsylvania, Wisconsin and New York." Mid Atlantic Marketing Report No. 5 (Schine).

"From January, 1979 to January, 1982, California producers brought 81,000 additional cows into the nation's herd total." Steward Huber, Kansas City Symposium.

"During 1981, the total number of farms with milk cows continued to decline. There were 12,000 fewer in 1980 but the size of remaining operations had increased. Dairy farms with 50 or more cows accounted for almost 22 percent of all these operations, compared with about 20 percent in 1980." USDA Diary Market News.

"Production would tend to be frozen in current locations . . ." MIF p. 35.

[5] NIDA Report on Base Excess in Order No. 4.

"The base excess plan failure is well documented in Order No. 4 . . . between 1975 and 1981 there was an increase in milk production of 1,093,442,000 pounds or 22.5 percent. The blend price rose 46 percent and the excess price from $7.57 to $12.47 or a 64 percent increase. "Milk production for Order No. 4 was on par or higher than the national increase in production during a time of declining numbers of farms and continued surplus production."

[6] Justice Department report, p. 251.

"Because these plans (Class I base plans) were perceived to involve production control, Congress felt it was unwise to allow cooperatives to exercise this power. Accordingly, block voting in federal order hearings is prohibited on this issue of whether a base plan will be instituted." (7 U.S.C. § 608C(5)(B)(f). DOJ Study 251.

The Dairy Promotion Board would have excessive powers, and would be created by block voting on H.R. 6314.

[7] NIDA Analysis of Dairy Legislation, June, 1982. MIF p. 32.

The NMPF (Boschwitz bill) proposal would create a very powerful Dairy Board to "manage the program, establish purchase prices and margins for price support operations, assess products, manage the disposition of all surplus stocks in both domestic and world markets . . . " MIF p. 32.

huge dairy cooperatives. The concentration of power in the hands of these individuals could be used to strengthen their own members, and disadvantage local organization members or independent producers, processors, or distributors.

It does not take much imagination to see that under such a board, dairy policies would be designed to favor the large cooperatives and their members, and their processing, manufacturing, and distributing subsidiaries to the disadvantage of the independent businesses in the industry, especially those who are smaller competitors.

In addition to this statement, there is our brief analysis of certain key sections of some of the bills that are now before the House and the bill introduced in this committee by Senator Boschwitz. We ask, with your permission, that this be included in the record.[1]

Thank you.

Senator **Cochran**. They will be included, Mr. Randall. We appreciate that statement.

Mr. Neu, we will hear from you now.[2]

STATEMENT OF JIM NEU, PRESIDENT, NEU CHEESE CO., HARTINGTON, NEBR.

Mr. **Neu**. This governing body, along with the House of Representatives, deliberated 9 months ending last December, setting a support price for milk that only included 15 percent of the milk produced in the United States. Who then set the price for the other 85 percent of milk produced in the United States, if Congress did not?

The answer is that the Secretary of Agriculture, through the Federal milk order system, sets the price for 85 percent of the milk produced, not you in Congress. The Secretary of Agriculture's Federal milk order system sets the price for all grade A milk other than those controlled by State orders and has the authority to raise and lower these prices in order to assure the American milk consumer that an adequate supply of grade A bottling milk be available for sale and consumption.

The Federal milk order system has set the grade A milk price so high that, as an example, in March 1982, only 45 percent of the grade A milk produced was used as grade A bottling milk. The balance of all grade A milk produced, 55 percent, was used to manufacture other dairy products, much of which created the problem of surplus Government owned cheese, butter and nonfat dry milk.

The Federal milk order system has by regulation established grade A milk prices so high that the average grade A milk consumer living in or around 1 of the 47 regulated areas surrounding nearly every one of the large cities in the United States, in March 1982, paid an average 17.25 cents per gallon—$2.01 per 100 pounds of milk—of milk consumed over the price support that you in Congress set.

The Federal milk order system has allowed cooperatives exemptions from antitrust monopoly provisions not allowed most other independent American businesses, so that cooperatives can now collectively demand premiums from milk bottlers above the Federal order prices. These premiums amounted to an additional 5.7 cents per gallon that the average American milk consumer paid for milk purchased in March 1982 over the already high Federal order prices.

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[1] See p. 249 for an analysis of dairy legislation, June 1982, inserted by Mr. Randall.

[2] See p. 251 for the prepared statement of Mr. Neu.

The Secretary of Agriculture already has the authority to force the low string of the 5.7-cent premium charged by cooperatives, over the 17.25-cent price his Department set over your support prices just as he now has the authority to lower grade A prices to consumers by 17.25 cents per gallon, without asking for congressional approval.

The average price paid by the American consumer in March 1982 for grade A milk was 23 cents a gallon over the support price you set, despite all the overproduction which they are now coming to you and expecting you to come up with an answer for.

The National Milk Producers' proposal now being asked of you asks for even more control over the most regulated industry in the United States by asking for a permanent Federal Government $800 million appropriation to set up base plans for more control by cooperatives.

If the Secretary of Agriculture, under the authority he already has, were to do so, he could save U.S. milk consumers nearly $1 billion a year by lowering the price of grade A milk, increased milk consumption and at the same time lower the overproduction of grade A milk and thereby save the U.S. taxpayers the $2 billion we taxpayers are now paying to buy cheese, butter, and nonfat dry milk made from the surplus grade A overproduction.

I would like to point out that Neu Cheese Co., a small plant in Nebraska, purchased 1.25 million pounds of surplus grade A milk in California in the past week. Last Monday I concluded an arrangement with a broker in California for 700,000 pounds of milk per week over the next 3 weeks. The only place I can go with that product is in Government cheese. I will be paying $80,000 for that 700,000 pounds of milk per week, and the transportation companies will get $50,000 of the $80,000 I will be paying for that milk. I think it is a crying shame that our grade A producers have such a high price over the support price so that the consumer is the one who ends up paying the exorbitant transportation fees for my company to make more cheese into more products for the Government to buy.

I thank you.

Senator COCHRAN. Thank you, Mr. Neu. It makes a lot of sense, does it not?

Mr. Oberweiss.

Mr. OBERWEISS. I have worked diligently to condense this statement and I hope after I read this, if there is an explanation needed, I have a few additional remarks I would like to make.

Senator COCHRAN. Thank you very much.

STATEMENT OF JOSEPH J. OBERWEISS, CHAIRMAN, OBERWEISS DAIRY, INC., AURORA, ILL.

Mr. OBERWEISS. Thank you for allowing me to appear before this important committee. A brief explanation about the operation of Oberweiss Dairy, Inc., might be proper at this time.

Four generations of my family have been or are presently engaged in the dairy industry. Our company's main business is processing and distributing milk in Aurora, Ill., and the surrounding area. We also operate a small farm and produce about 100,000 pounds of milk monthly.

Oberweiss Dairy, Inc., is a handler under Federal Order No. 30 and has been under marketing orders since their establishment in the Chicago area.

My refusal to agree to the terms of Super Pool in 1963 resulted in many unpleasant experiences but has enabled me to become quite knowledgeable regarding milk marketing by the monopoly organization. This experience has intensified my desire to promote the competitive system.

Class I prices in marketing order areas with classified pricing and marketwide pools have been influenced by powerful cooperatives so that dollars obtained by the higher than necessary prices of class I milk are transferred to the milk manufacturing industry. That which has an extra production cost of about 15 cents per hundredweight is priced at $2. This is accomplished by market power and the aid of the U.S. Department of Agriculture.

AMPI states that their cooperative is the largest processor of cheese in the United States. AMPI is therefore a most substantial beneficiary of this dollar distribution arrangement.

Marketwide pooling and its related assessments on fluid milk are destroying the fluid industry. Those whose names were formerly synonymous with milk—Borden, Kraft, and Beatrice—have felt it wise to abandon many major milk markets and to emphasize the sale of other products. The Oberweiss Dairy assessment for this fund's transfer program for April of 1982, which is a typical month, was $9,648.96, a truly crushing burden.

In the suburban area of Chicago, 29 of the previous 32 fluid milk plants have ceased operations. In 10 years, the period of 1971 to 1981, class I sales in the Chicago market area receded from 287 million pounds a month to 246 million pounds, while population in the area has been increasing.

Our orderly marketing system during this same time has brought about an increase in total supply from 669 million pounds per month to 1,041 million pounds. The loss of sales and the increase in supply are positive evidence of improper pricing procedures.

You and I are here today because our industry has a serious problem. Our excess production cannot be corrected without stepping on a few toes. All of us are anxious to minimize the injury to dairy farmers in bringing about the necessary adjustments.

Price supports of the U.S. Department of Agriculture are receiving more than their just share of the blame for our overproduction. The power of the super cooperatives in establishing Federal orders with marketwide pools is at least partly responsible for our present dilemma. The transfer of funds from the fluid milk industry to the manufacturers of butter, cheese, and powdered milk is as genuine a subsidy as is the price support system of the Department of Agriculture, yet this seems to have been ignored in our deliberations.

In Federal Marketing Order No. 30, the transfer payments—that is, money taken under terms of the order—from fluid milk drinkers or the processors of fluid milk for the month of May 1982 amounted to $1,940,574. The price of class I milk could be reduced by 50 cents per hundredweight, resulting in a mere 10-cent per hundredweight lower price to the farmer. This method of attack would be very acceptable to those of us actually milking cows but will tend to bring about terrifying screams from the board room of the cooperatives.

We have as yet not considered that which likely is the greatest problem of all, super pool. Super pool is the process that super cooperatives have established to obtain funds for use in regulating the dairy industry. A very small amount of this money, less than 10 percent trickles back to the dairy farmer.

By the elimination of super pool, class I prices could be reduced by 78 cents per hundredweight. The combined action recommended, a lower order price for class I sales plus the removal of super pool, would provide consumers with milk costing $1.28 per hundredweight less at an estimated 18 cents per hundredweight lower price to the farmer-producer.

My criticism of marketing procedures admittedly is directed at those existing in Chicago. I am convinced that similar situations are present in most regulated areas. Our reluctance to admit the errors we have made in the past should not prevent the necessary corrective action which will benefit the farmers, consumers, and processors.

In summary, I recommend No. 1: Order prices shall be maximum as well as minimum prices. No. 2, eliminate marketwide pooling, which is the basis of removing money from fresh milk plants and transferring it to the manufacturers. No. 3, reduce to a realistic level the premium for milk for fluid purpose. No. 4, do not change the support price at this time, recognizing, however, the desirability of a return to the American competitive system.

In closing, I do want to bring out one matter in particular, that even though it is testified that the Department of Agriculture regulates a great deal of milk, in the Chicago market, according to this statement from Central Milk Producers Cooperative, in a calendar year beginning December 1978 and ending in 1979, there was a total of 10,567 million pounds under order 30, AMPI hereby states that they control 9,724 million pounds of this 10-billion pounds of milk or 92 percent of this product.

So under the marketing order we are regulating, only 8 percent of the milk that is in the area. This 92-percent figure AMPI as stated has been as high as 95 percent and it varies somewhat below 90 percent from month to month. It is not identical at all times.

I have been in this business for 50 years. Since the establishment of Federal order markets, at least in the last 25 years, no fluid milk plant in the Chicago area has been allowed to purchase milk at Federal order prices. It is the super pool organization that sits down with milk plant operators in Chicago and determines how the marketing orders should be rewritten. This is the order that is truly the milk marketing order.

The only thing that the marketing order in Federal Order No. 30 does is calculates a method of making assessments upon the sale of fluid milk and then distributing this money to the manufacturing plants. The reduction of this amount of money handled in this manner would have two benefits. It would reduce the price of fluid milk to the consumer substantially, causing them to drink more milk; it would be a slight discouragement of the production of the manufactured products insofar as this particular subsidy would be removed from the availability of Associated Milk Producers, Inc.

Thank you.

Senator COCHRAN. Thank you very much, Mr. Oberweiss.

Mr. Neu, I notice that you have contacted the Secretary about some proposed adjustment in the Federal order. Can you tell us what kind of reaction or response you received from the USDA?

Mr. NEU. The USDA totally ignored it. At the hearing in Kansas City, Mr. Lane, I believe, said we are not considering at this point in time making adjustment on Federal milk order prices. He pointed out that the House of Representatives had instructed the Department of Agriculture to look into the Federal milk order system. However, I note in the newspaper that—this was back in January—it has been within the last 3 weeks that the Department of Agriculture has actually designated anybody to even look into the situation.

Senator COCHRAN. I wonder if you could elaborate for the record the statement about the practice of co-ops charging premiums to processors in areas where there is no competition and using the funds to pay their producer members higher prices in other areas where there is competition?

Mr. NEU. This is a widespread practice. Since cooperatives are exempt from antitrust exemptions, they also supposedly are owned by the producers and they are not required to pay the minimum price. You will find in virtually every order cooperatives are paying less than the minimum price that is required of independent milk handlers such as Neu Cheese. This in turn gives them ample funds with which to, as an example, a few miles from my plant, while my competitor is charging as low as 14 cents a hundred for milk, another cooperative has followed that lead and matches that price. There is no way that the contract haulers Neu Cheese has or any contractor hauler in that area of the country can haul for 14 cents on a hundred. I am not large enough to be able to subsidize and match that price, therefore I lose the producer to the larger cooperatives on the thing.

This money has to come from somewhere. Obviously, it is from areas where they are paying less than the order price, to be able to average out on the thing. It works to the detriment of the producer as well as to the detriment of the competition when you allow one class of corporation to pay different than another class.

Senator COCHRAN. There is a suggestion that there are regional concerns that have been expressed by this panel and others as well. Mr. Randall, I wonder if there are any changes which can be made in the Federal milk marketing orders, in your judgment, that could help resolve the current problem with overproduction.

Mr. **Randall.** Mr. Chairman, when the Congress took up the farm bill last year, we were very instrumental in urging that they include section 207 which was to require the Secretary to make a detailed study of the order system and report back. It is a highly complex thing, as you well know, and we feel that it needs to be looked into and the Secretary needs to have input from every segment of the milk industry before major changes are suggested. We are not prepared to give you specific examples at this time, but we are working with the Secretary in the study that he is making.

Senator **Cochran.** Mr. Oberweiss, we appreciate the benefit of your experience and operations. I wonder whether you are having a similar experience as we have in my State where the processors during part of the year have to import milk from other regions to help meet the fluid market needs. I wonder what your experience has been on this. Have you an adequate supply of milk year round?

Mr. **Oberweiss.** Even with the excess, tremendous supplies located within 15 miles of my plant, have been transported huge distances to make it unavailable to my company, while I was traveling to Plain, Wis., which is northwest of Madison, and at great expense hauling milk in to my plant. AMPI has spent several hundred thousand dollars in effort to destroy my company. One of the methods is to not allow me to have milk directly from farms. A second method is each month the industry receives material indicating that if you, Dean Milk Co., or if you, Borden, sell milk in Aurora, and if you will tell us how much milk you sell in Aurora, we will send you a monthly check to enable you to compete in that market.

From time to time I have had to buy milk from this cooperative or tell a customer perhaps I did not have milk this morning, and that is pretty embarrassing, or I guess it is kind of an unwritten law that we do not do that.

When I purchase milk from this organization, I have the invoices here, I was given this Aurora credit. I am sure it was because they felt it would be a terrific violation of the antitrust laws if they were giving it to my competitor and not giving it to me, so they gave me the Aurora credit which is 48 cents per hundredweight during one period of time, and 66 cents per hundredweight during another period of time.

I have information which indicates that this credit has been up to 90 cents per hundredweight on the milk that is sold in Aurora.

Senator **Cochran.** We appreciate very much this panel's contributions to our hearings. I apologize again for your having to wait, but we think that your contribution to the hearings certainly is very important and we thank you all for being here.

Our final panel today includes James Putnam, president of the Tennessee Farm Bureau Association, who will be testifying on behalf of the American Farm Bureau Federation; Robert Frederick, legislative director of the National Grange; Robert Mullins, legislative director of the National Farmers Union; and Robert Rumler, chairman emeritus, Holstein-Friesian Foundation.

Welcome. We are glad to have you here and a thank you for being patient.

Mr. Putnam, you may proceed.

STATEMENT OF JAMES PUTNAM, PRESIDENT, TENNESSEE FARM BUREAU ASSOCIATION, ON BEHALF OF THE AMERICAN FARM BUREAU FEDERATION

Mr. PUTNAM. Thank you, Mr. Chairman and members of this distinguished subcommittee. I am James Putnam, president of the Tennessee Farm Bureau Federation, and member of the American Farm Bureau Federation Board of Directors, and I am also a dairy farmer from Dyer County, Tenn., not too far from your State.

We do find from the part of the country that I come from quite a difference to the Vermont section. We are in a very diversified area of agriculture, dairying being just one part of it, although it is a very vital industry to the State of Tennessee and to our Nation and to the organization that I represent.

Farm Bureau appreciates the opportunity to appear before you today to discuss our recommended changes in the dairy price support program. As a general farm organization, we represent producers of all crops and livestock, including a majority of the Nation's dairy farm producers.

Farm Bureau recognizes that a serious problem confronts the dairy industry today. We are plagued with overproduction to the extent that the Federal Government will purchase in excess of 13 billion pounds of surplus dairy products this year. Estimated costs for these purchases in fiscal year 1982 are likely to exceed $2 billion, an amount which is totally inconsistent with the original intent of the dairy program. In addition, milk production continues to increase in 1982, despite reductions in the dairy price support program included as part of the 1981 farm bill.

It is now quite clear that even though the support level has remained at $13.10 since October 1980, there is still an incentive for dairy farmers to continue to overproduce at the expense of the Federal Government and ultimately the taxpayer.

As Secretary of Agriculture John Block pointed out on May 5, there are approximately 1 million surplus cows in this country that must be culled before production will be brought in line with demand and expenditures for the dairy programs can be expected to significantly decline. In the meantime, it is incumbent upon those of us actually representing dairy producers to recommend changes in the program which will send the correct signal to reduce production, cull the necessary cows and ultimately reduce the stockpile of surplus dairy products.

Farm Bureau opposes granting the Secretary of Agriculture total discretion in establishing the dairy price support level as proposed in S. 2533, the administration's dairy proposal. We also oppose the various proposals to establish national base quota plans and to have national dairy boards administer the program.

The American Farm Bureau for the past 3 years has worked with its member dairy producers to develop a revised dairy program which would continue to provide minimum price protection while insuring the Nation a stable supply of dairy products without an excessive buildup of surplus stocks.

Working with our county, State and American Farm Bureau dairy advisory committees, we have developed recommended changes to the dairy program which have been endorsed repeatedly by the voting delegates at our annual meetings. For 1982, Farm Bureau policy reads as follows:

> We favor a market-oriented agriculture. We believe a market-oriented agricultural system will be more efficient in producing plentiful supplies of high quality food and fiber and provide farmers with greater opportunity for economic well-being. Farmers and ranchers must be allowed to produce for a profit.
>
> A market-oriented agriculture means that supply and demand, rather than Government action, should ultimately determine production and prices. Toward that end, all laws which provide authority to implement government-subsidized farm programs should be eliminated after the 1985 crop year.
>
> In implementing farm programs through 1985, we support continuation of a dairy price support program. We favor a system where the price support level would be adjusted according to the amount of net dairy products purchased by the Federal Government and development of alternative programs for financing the purchasing and marketing of surplus dairy products.

In formulating our position, a number of considerations were given to proposals which would provide a solution to the current problem. In doing so, Farm Bureau had three major objectives:

To maintain a viable dairy price support program; one that provides a floor under milk prices but not at a level that encourages production of large quantities of milk the consumers will not buy;

To reduce the supply-demand imbalance to a level which can be absorbed by market forces in a reasonable time; and

To continue our efforts to achieve the post-1985 policy goal of eliminating government-subsidized farm programs.

May I say here, I was very concerned and interested in the tobacco hearing we had here with the full committee, where Tennessee is vitally interested in tobacco, and we support this program and efforts being made here and that is to relieve the cost to the taxpayer for the agricultural commodities that we produce.

In considering these objectives, Farm Bureau also analyzed the proposed solutions within——

Senator BOSCHWITZ. Let me say that it might not be good to mix tobacco and milk at the moment.

Mr. PUTNAM. I was just trying to say we are trying to say we are trying to get the programs. I am not trying to mix them. We are interested in both of them.

In considering these objectives, Farm Bureau also analyzed the proposed solutions within the following framework:

Will the proposal accomplish the objective? Is the proposal politically feasible? Is the proposal administratively feasible? Will producers accept the proposal?

Our work in attempting to develop an acceptable solution has resulted in overwhelming producer support for continuation of the basic concepts of the dairy price support program of the Agricultural Act of 1949. Within that framework, Farm Bureau proposes a program under which the support level would be adjusted on an annual basis by the Secretary of Agriculture based upon net Commodity Credit Corporation purchases of dairy stocks for the previous 12 months.

The support level would range from 60 to 90 percent of parity and would be indexed to purchases of 2.0 to 11.6 billion pounds. A copy of our indexing system illustrating support levels as a percentage of parity is included for your reference.

Farm Bureau believes that this proposal would provide an orderly adjustment in the dairy sector, permitting the support price to rise once the surplus problem is remedied. In addition, the program could be implemented quickly and could prevent a recurrence of the present problem because the formula does not provide for a long-term guarantee of a stipulated price without regard to Commodity Credit purchases. The proposal would be easier to administer relative to some form of base or quota plan and would effectively curtail surplus production without undercutting the dairy industry.

We believe that if this formula were adopted, it would serve to complement the various actions. both legislative and administrative that Secretary Block has proposed. Most importantly, this formula removes much of the burden on the executive branch in the administration of the support level, since the index would automatically determine the support level at which dairy products would be supported. Also, we would point out that the program would be more immune to political actions which historically occur in an election season.

Finally, at its June meeting, the American Farm Bureau Board of Directors directed that any price support legislation should contain provisions for quotas on casein imports equal to the previous 5-year annual average. Such a provision would help to prevent further erosion of domestic markets for our dairy products, particularly by casein whose production is subsidized.

I want to say again that we thank you for the opportunity to present our statement here on this occasion.

Farm Bureau appreciates the opportunity to present this alternative for consideration by the committee and at this time would welcome any questions which the committee may have.

CCC net purchases [1]

[In billions of pounds]

	Support level (percent of parity)
Up to 2	80-90
2.0 to 2.5	79
2.6 to 3.0	78
3.1 to 3.5	77
3.6 to 4.0	76
4.1 to 4.5	75
4.6 to 5.0	74
5.1 to 5.5	73
5.6 to 6.0	72
6.1 to 6.5	71
6.6 to 7.0	70
7.1 to 7.5	69
7.6 to 8.0	68
8.1 to 8.5	67
8.6 to 9.0	66
9.1 to 9.5	65
9.6 to 10.0	64
10.1 to 10.5	63

	Support level (percent of parity)
10.6 to 11.0	62
11.1 to 11.5	61
11.6 plus	60

[1] Total purchases, milk equivalent, minus Government sales for unrestricted use; annual basis.

Senator COCHRAN. Thank you, Mr. Putnam, for your testimony.

Mr. PUTNAM. I would be glad to respond to any questions.

Senator COCHRAN. We will go through the balance of the panel and then we may have some questions.

Mr. Frederick, representing the National Grange.

Mr. FREDERICK. I am Robert Frederick, legislative director of the National Grange. It is Mr. Andersen's statement.

Senator COCHRAN. Yes, we have that and we will make it all a part of the record.[1]

STATEMENT OF EDWARD ANDERSEN, MASTER, NATIONAL GRANGE, AS PRESENTED BY ROBERT FREDERICK, LEGISLATIVE DIRECTOR

Mr. FREDERICK. Thank you, sir. I do want to thank you for holding this intensive hearing, even though they are only 2 days. The information that has been brought forth this morning and on the first day has been very beneficial to the industry and I know to the Congress.

The National Grange is a general farm organization with membership in 41 States. Thousands of our members from New England to the west coast are engaged in the dairy industry. Most of our dairy members have small- to medium-sized dairy farms, with herd size ranging from 32 to several hundred milk cows. They are family dairy enterprises, embracing father-son partnerships, incorporated family dairy farms and sole proprietorships. They do not have large amounts of available capital and for the most part are heavily financed, depending on the monthly milk check to meet both their operating costs, servicing their debt and to live.

I certainly want to associate ourselves with the statement of the dairy farmer from Vermont. There is no sense in me trying to expand on anything that he contributed. I think he made an excellent statement. I will try to be brief because of the time constraints.

The Grange and the dairy farmers we represent realize that under the present situation in agriculture there is a need to reduce the cost of the dairy price support program and that changes have to be made. We supported the National Milk Producers Federation program of tieing the percent of parity to takeoff of dairy products by the CCC. During the 1981 farm bill, that was rejected and the compromise was the dairy provisions in the 1981 farm bill.

We rejected giving the Secretary discretionary authority in setting price supports in the 1981 farm bill, and that is still our position, not that we feel that the Secretary of Agriculture, the present one or any future Secretary would abuse that authority, but when it comes to budget expenditures the Secretary of Agriculture is not always a master of his own ship. Pressures from within and outside the Department of Agriculture can force decisions on any Secretary that may not be in the long-range best interests of dairy farmers or the consumers.

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[1] See p. 254 for the prepared statement of Edward Andersen, Master, National Grange.

We also do not believe, as we have tried to point out to the committee, that the level of dairy price supports is alone responsible for dairy surpluses, and this has been pointed out many times by other witnesses, that low grain prices, low cattle prices are a large contributing factor to the increase in production. We have heard today that consumption is flat, in some cases has increased, fluid milk has settled off, so it is not really—although consumption is not as high as we would like to see, it certainly is not a strong factor in the overproduction.

The overproduction came about because of these factors. And one other that we would like to point out is that the—according to a study conducted by the Economic Research Service, USDA, entitled "The Effects of Tax Policy on American Agriculture," the dairy industry, along with other livestock operations, provides opportunities for high bracket taxpayers to shelter income. The sheltered income might be professional fees earned by a doctor or a lawyer or it might be income earned on the farm. The competitive advantage flows to the high-bracket taxpayer whether the high bracket is built by bulls on Wall Street or bulls in the barnyard. You may have noticed recent ads in the Wall Street Journal offering the leasing of dairy cows as attractive tax shelters. One agency claimed to have over 70,000 head leased to dairy farmers. The University of Delaware conducted a study on the advantages and disadvantages of leasing dairy cows, and a copy of that is attached to our statement.

We are not passing judgment or recommending changes at this time in tax laws, only pointing out that they have been a part of the reason for increased milk production.

The other recommendations of the Secretary in their proposal, the Dairy Adjustment Act of 1982, certainly are acceptable and long overdue. The new programs recommended and the present programs will be of great assistance in moving the large stocks of dairy products in the hands of the CCC, at the same time will increase the nutritional level in diets of our children, the disadvantaged, elderly, and handicapped.

We are especially pleased with the Secretary's orders to the Farmers Home Administration to establish new guidelines to be used by loanmaking officials for making loans to dairy producers. We receive reports from Pennsylvania and other States where a young farmer goes in to apply for a Farmers Home loan for, say, entering the swine industry and they will turn down the loan for that particular enterprise but tell him if he would go into the dairy industry the loan would be granted.

Senator Cochran. They tell me that policy has been changed.

Mr. Frederick. Well, it has been directed to be changed, but I do not know whether it has, sir. That has prompted one of our suggested amendments.

In brief, we do support the Milk Federation's plan as introduced by Senator Boschwitz, both the promotion program and the dairy stabilization price program. We are recommending or offering for your consideration three amendments plus support for the California standards as referred to on increasing the level of solids-not-fat in milk.

The first amendment we are recommending because the National Grange realizes that any dairy program must allow for entry of new producers; however, the Grange is strongly opposed to allowing new producers to enter the dairy industry during this time of high program costs and mounting surpluses.

We therefore propose the following provisions as part of the new dairy stabilization program. Until the National Dairy Board determines that the demand is within 2 percent of supply, a new producer would receive the tier I price on 60 percent of his milk production and tier II price on his remaining production for that year. Following a new producer's first year of production, he shall be treated the same as an established producer.

Production disincentive provisions: Any two-tier program in order to be successful in controlling excess milk production must contain a provision to discourage increased production that would be eligible to receive the tier I price.

As an example, if a dairy farmer was producing 500,000 pounds of milk annually, and it was determined that there was 10 percent surplus milk, this producer would receive the tier I price on 450,000 pounds and tier II price on 50,000 pounds. The next year this producer could add cows and increase his production to 800,000 pounds. If the surplus percentage remained at 10 percent, this producer then would receive the higher tier I price on 720,000 pounds of milk and the tier II price on 80,000 pounds. He would receive a reward for contributing to the already existing surplus.

To remove this incentive to increase production, the National Grange recommends that until such time that the board determines that supply is within 2 percent of demand, the following provision would apply: In any quarter that a producer increased his production over the corresponding quarter of the previous year, his percentage of price reduction shall be the national average percentage reduction plus a reduction equal to the amount of his increased production for that quarter.

Then we modified also the reduced production incentive program, which is a part of the bill introduced by Senator Boschwitz. To encourage producers to cut back on production, the National Grange recommends that a dairy producer who can prove that he has already decreased his production below that of the corresponding quarter of the previous year may file for a rebate of his surplus production assessment equal to the amount of reduced production. However, if a dairy producer can prove that his annual production in the year of enactment of the dairy price stabilization program, and in any subsequent year, is below that of the previous year, including any national average percentage reduction announced by the board, he shall be exempt from the national surplus assessment.

Those three amendments along with the support of the increase in milk standards is the position of the National Grange. We feel that those three amendments would have the effect and benefits of the national excess base plan without objections to such plans in that they will allow new producers to enter the industry, and the milk production of an individual dairy farmer does not aquire a capital value, which is one of the strong objections to any type of a base plan. And it also would discourage a producer from increasing his production in the fact that all of his increase would be at the tier II price.

There would be no base or any quota assigned to each dairy farmer as in other base plans, and the producer will be free to make his own production decisions, based on the price return for his milk.

Thank you, Mr. Chairman. I would be glad to respond to any questions.

Senator COCHRAN. Thank you very much for giving us the benefit of the position of the National Grange.

We will now hear from Robert Mullins, legislative director of the National Farmers Union.

STATEMENT OF ROBERT J. MULLINS, DIRECTOR, LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. MULLINS. Thank you, Mr. Chairman. We appreciate the opportunity to be here today and relate to this subcommittee our concerns and views and recommendations in adjustments to the dairy price support program.

I would like to bring to the committee's attention—I have James Graci with me, our communications coordinator from the Pennsylvania Farmers Union, and at the conclusion of my statement he would like to submit a statement from the PFU for the committee's consideration as well.[1]

Senator COCHRAN. We would be glad to receive it.

Mr. MULLINS. Thank you, sir.

Delegates to our most recent National Farmers Union convention held here in Washington some 3 months ago spent a considerable amount of time discussing the current dairy situation and assessing various options available to us to help bring supply more in line with demand.

In order to formulate a proposal which incorporates our basic philosophy of supporting the Agriculture Act of 1949 as it relates to dairy, our membership provided that the National Farmers Union would establish a dairy task force composed of active dairy producers from within the organization to formulate those plans. Those plans have been incorporated in what we term the "Dairy Product Stabilization Act of 1982." It is a very straightforward type plan that does not require any new bureaucracy. We think it is an equitable plan, one which will help to bring production more in line with demand. I would like to outline the approach that we are recommending to the subcommittee and I think you will see that it has some desirable traits in it.

First of all, it is a base plan and we work off of the producers, 1981 calendar year production. Second, we establish the price support level at 75 percent of parity, with an annual adjustment. Third, it calls for the Secretary, prior to each marketing year, to establish a production goal for that year, based on the 1981 calendar year production.

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[1] See p. 267 for the prepared statement of Mr. Mullins, and p. 272 for the statement of Mr. Graci.

Assuming that we have——

Senator BOSCHWITZ. Do you mean the farmer or——

Mr. MULLINS. He would establish a nationwide production goal based on the 1981 calendar year production. The producer then—let us assume that we did have a 10-percent excess and the Secretary said, well, we need 10 percent less milk than we produced in 1981, so to participate in the program the individual producer would then adjust his milk production downward by that recommended production goal.

The incentive—or, rather, it is the opposite, it is a disincentive to overproduce, would come in the form of excess marketing assessments. Using that 90-percent figure, if the producer produced between the production goal and his base he would be assessed 5 percent of his total receipts. If he produced in excess, additionally in excess of his base, he would be assessed the initial 5 percent and an additional 10 percent for exceeding his base. So totally he would then be assessed 15 percent of his return.

The program administration would be handled by the Secretary of Agriculture——

Senator BOSCHWITZ. No matter what the excess is?

Mr. MULLINS. Anything in excess of his base, would be assessed an additional 10 percent. Actually there is a two-tier assessment ratio.

Senator BOSCHWITZ. I am not sure I understand—in other words, if he exceeds the 10 percent, he is going to get 90 percent parity, is that what you mean?

Mr. MULLINS. No, sir. Excuse me. If, for example, the Secretary has decided that we need a 10-percent reduction, working off the 1981 base, the producer then, to be within compliance with the program, would produce at 90 percent of his 1981 production. If he produced in excess of 90 percent up to his base, he would have an initial 5 percent assessment. If he produced in excess of his base he would then have an additional 10 percent assessment of total receipts for a cumulative assessment at that point of 15 percent. That we figure is the disincentive not to overproduce.

Senator BOSCHWITZ. It is pretty tricky to cut it that fine. In other words, if he overproduces by 2 percent he would have a 10-percent penalty?

Mr. MULLINS. An additional 10-percent penalty, yes, sir. Now, that could happen in some months but we would provide that at the end of the year, the producer would have an audit and if he produced over his quota or his production goal in a certain month but kept the whole thing within the 90 percent of production, then he in essence would not be penalized.

The other major points in this recommendation is that the Department of Agriculture would be responsible for maintaining up to 5 billion pounds of milk equivalent. Additionally, we are recommending that if Government stocks of dairy products increase as a result of increased importation of dairy products, the Department of Agriculture would be responsible for assuming those additional domestic dairy stock purchases without regard to the 5 billion pounds or without regard to the national production goal.

So if they allow imports to take a disproportionate share of the domestic market, then the Federal Government would be responsible for removing those additional stocks as well.

Finally, we provide that, at the end of 2 years, this dairy stabilization program would be subject to a producer referendum. To be in effect then it would have to be approved by the producers and then, if it were rejected, it would revert to the 1949 act.

Mr. Chairman, in summary that is the position of the National Farmers Union.

Senator **Cochran**. Thank you very much, Mr. Mullins. We appreciate very much having your testimony. We will receive the statement by your representative and include it in the record.

Mr. **Mullins**. Thank you, Mr. Chairman.

Senator **Cochran**. Robert Rumler, chairman emeritus of the Holstein-Friesian Foundation. We appreciate your being here, Mr. Chairman.

STATEMENT OF ROBERT H. RUMLER, CHAIRMAN, HOLSTEIN-FRIESIAN ASSOCIATION OF AMERICA, BRATTLEBORO, VT.

Mr. **Rumler**. Thank you very much, Mr. Chairman. I am privileged to be the anchorman on this panel and on this hearing and I will try to conform to the tradition of being an anchorman and catch up things.

The point from which I testify, Mr. Chairman, is a matter of record in the printed testimony, and I shall not go through that.[1]

Based on the current situation within the dairy industry, which is not of its own making—I think we all understand that—it is my opinion that the Congress is faced with the challenge to develop both an emergency plan to carry through the fiscal year 1983 marketing year and at the same time develop a more permanent plan which will address the purposes as set forth in the act of 1949. I am speaking of the specific purposes that are mentioned in there.

It is the position of our association that the dairy price support program is one of the four cornerstones supporting the U.S. dairy industry and must be continued.

By dividing the congressional challenge for legislative action into an emergency status and a long time status or long time program--that is, of price stabilization within the industry—potential solutions to me become more clear and the issues far less confusing.

Clearly, if the emergency does exist, then something should be done about it without delay. If so, then it is important that the method by which the support prices are lowered from the arbitrary level established at $13.10 per hundredweight should be applied with discretion and with appropriate recognition of its effect upon the industry.

Fresh fluid milk products are unique products in the market and are product leaders of the U.S. dairy industry. They are not subject to displacement, as are hard dairy products domestically produced, or subject to temporary changes in the vagaries of the import-export activities.

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[1] See p. 274 for the prepared statement of Mr. Rumler.

It appears logical to maintain market stability within any emergency action for these fluid milk products. Reductions in the level of price supports should apply to fluid milk products is completely realistic as an emergency measure to effect a lesser reduction for them than that which might be applied to the hard dairy products. The end result of such emergency action would be to increase the spread and the equivalent level of supports between the hard dairy products and the fresh fluid milk products, albeit that both categories would be subject to production on an emergency basis through fiscal year 1983.

As an example but not a specific suggestion as to numbers, included in the testimony is the idea of a base of $12 per hundredweight if that is the basis that is determined absolutely necessary in order to bring the production within line with demand. Then one-third of that reduction would be shared by fluid milk and the other two-thirds would be shared by the hard products. I think each has to take its licks, but the relative amount of the licks that they take is important in the consideration of the type of products being purchased under the CCC program.

But let me emphasize that any approach such as that that we are suggesting that you consider be considered only as a measure through fiscal year 1983.

Now, as for the long-range program, we think that Congress should consider the enactment of two pieces of legislation. The first of these would be a nationwide set-aside checkoff program for each milk producer, and such a proposal was presented by the National Milk Producers Federation under the title "The Dairy Products Promotion Act." And while some minor refinements of the proposal may be necessary or felt necessary by this committee, they should not be controversial and therefore should be easily accommodated by the sponsors as well as the Congress, and I would think that early passage of that legislation should be a foregone conclusion.

The second phase of the long-range program would relate to the dairy price stabilization or the support program. You already have before you Senator Boschwitz's proposal and several others dealing with either a two-price, a two-tier system or a base surplus plan and so forth. So what I suggest to you here is not in opposition to those plans but another alternative that might be considered by your committee.

As we look to the future, I think there is reason to believe and there is support for the contention that parity per se is obsolete as a sound basis for determining the level of price support of milk. This may be the first time that you have heard that, I do not know. It may not be, but it will not be the last, I am quite sure.

This being the case, a reasonable and realistic alternative to other proposals presented for consideration by your committee would be the careful development of a special dairy parity formula for the industry. The components of such a dairy parity should be factors which are sensitive and economically correlated with changing situations within our economy on a very current basis. They should include the factors which go into the cost of milk production but not the actual calculation of cost of production.

Additionally, such a dairy parity must include sensitive factors measuring the supply-demand situation as well as the disposable income of the consumer.

Now, with such a sensitive model or base level of price supports for milk could be adjusted almost automatically on a quarterly basis, rising and falling with that sensitive formula to the benefit of both the producer and the consumer.

Now, once the dairy parity would be in place, producers would know that surplus production would not be rewarded but efficiency of production as always would be a desirable goal.

Mr. Chairman, there is no stability in a situation where desirable legislation of this nature moves from one crisis to another as we have experienced recently. I believe that there is merit in handling the current imbalance in the milk industry on an emergency basis with emergency legislation, while getting in place a more workable realistic long-range program.

Now, in support of this dairy parity idea, I have attached to the testimony a copy of the report of the Comptroller General of October 10, 1980, which addresses this particular issue.[1]

Thank you very much.

Senator COCHRAN. Thank you. That will be included as a part of your testimony for which we thank you most sincerely.

I have several statements that have been furnished to the subcommittee by organizations and individuals who are interested in these hearings and want to have statements included in the record. Included are the American Dry Milk Institute, Kroger Stores, Food for the Hungry International, and World Vision Relief Organization. They will be included as part of the record.[2] I might add that any other statements such as the one Mr. Mullins referred to will be included also in the record of the hearings. This testimony will help give us a wide range of viewpoints and opinions from which we can come to some sensible conclusion and provide good answers to the problems faced by industry and Government.

I wanted to ask each one of you about your ideas on these different plans, the base plan and the suggestion that the administration has made. Each of you have already answered that question, by taking a look at each proposal and giving us your thoughts about them and suggesting alternatives.

There was a reference earlier this morning to some of the regional differences, and I am still concerned about how we try to fairly address our regional problems. We know, for instance, that in my State, if we adopt the proposal for the base plan, farmers are going to have to reduce production. The basis for that requirement would be that production has been increasing too rapidly, but the fact is that in that State it has not been increasing at all.

As a matter of fact I do not think production has increased in Vermont, although nationwide there have been overall increases in production.

Some tell me, well, you cannot separate regions of the country and treat one region any different from another or impose any special benefits, that would not be appropriate at all. But, nonetheless, these are just problems that are involved that have to be considered, so we mention that just as an observation at this point.

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[1] See p. 278 for a reprint of the Comptroller General's report.

[2] See pp. 281–94 for the above-referred-to statements.

Is there any way Mr. Putnam, in your opinion, to direct the impact of a program to involve the changes in the basic dairy program just to areas or maybe kinds of production that may be responsible for the surplus that we find?

Mr. PUTNAM. I think presently you would have a problem dealing with kinds. I think if you were to deal with class I or class II or III milk, as you talk about, if you make the disparity between the two more distinct, you will have a switch from one kind to another. I think if you made class I milk much more attractive than class II or class III milk, then you would have a transition from the class II to the class I. I think it is a real pitfall. I think you have got to look at it from a general sense and milk as a whole because I think that is what will happen. I have seen it happen before.

Senator COCHRAN. Is Dyer the county seat of Dyer County?

Mr. PUTNAM. Right.

Senator COCHRAN. That is Ed Jones' country.

Mr. PUTNAM. Exactly.

Senator COCHRAN. I think the first hearing that I ever participated in as a Congressman, he chaired in Franklin, La. It was a hearing on the subject of problems in the dairy industry and it was in 1973.

Mr. PUTNAM. He was——

Senator COCHRAN. I testified before his hearing in behalf of the dairy farmers of my congressional district which was just across the Mississippi-Louisiana line from the town where the hearings were being convened. I returned the favor last year, as a U.S. Senator, and I convened hearings in Memphis, Tenn. to look into the economic problems of farmers in the Midsouth region and he joined me and we conducted the hearing jointly. I have been a friend of his and he mine for several years and I admire him.

Mr. PUTNAM. Well, I have known him and he is——

Senator COCHRAN. He is in the wrong political party, as far as I am concerned, but other than that we get along fine. [Laughter.]

Mr. PUTNAM. I have been impressed here by the hearings, if I might interject a statement here. I believe it has been recognized by most everyone here that our real problem in dairy is overproduction, and somehow, some way we must address that I think before we solve our problems.

I think experience has told us in the past on commodities that guaranteed support prices, higher guaranteed support prices, which is 80 percent, has been for the last few years, without production controls help to lead to the problem we are faced with in dairying today. You know, I just think experience has told us that and I think we have arrived at that situation in dairying.

Senator COCHRAN. Mr. Rumler.

Mr. RUMLER. Mr. Chairman, I think it is also true that one of the problems relating specifically to parity per se is the fact that it is not a sensitive mover of prices, and that is the point I was trying to make in what I was saying. I think likewise there is also some confusion in the minds of people in correlating or thinking in terms of grade A milk and class I milk as really the same. Such is not the case. There is a lot of grade A milk. There is only about 18 percent of grade B milk in the country. There is an awful lot of grade A milk going into hard products which are considered grade B categories, but we should not confuse those in all of this.

I agree that also we need to consider the stability of the fluid milk, and that is true in your particular State because everybody cuts back 10 percent then that means that you are going to be importing about 5 percent of your milk, and there is a sense in which that does not make sense. But if everyone takes a little bit lower price, but the major part of it is hit on the hard products and unfortunately that is going to hit some areas but it is also going to hit California, too, because what they do not sell in class I goes into class II and class III.

Senator COCHRAN. Mr. Mullins.

Mr. MULLINS. May I return to the regional question?

Senator COCHRAN. Sure, I would be interested in your thoughts on that.

Mr. MULLINS. I mentioned the task force that we put together and we specifically drew from various areas of the country; those that I would term milk deficit areas as well as the Upper Midwest, surplus areas, and we wrangled with different concepts of how do you do that.

We quite frankly could not come up with a program to address it on a regional basis simply because I think no matter what you do, you are going to have to shift the product one way or the other. These were nine guys who are actual dairy farmers and they know what they are talking about because they are out there producing every day, and we tried every approach we possibly could, to dividing up the country by market areas, and I think it is just about impossible to regionalize this type approach. I wish I had a better answer for you.

Senator COCHRAN. Well, I appreciate very much all of you being here. I wish we had more time to discuss the details of some of the plans but we have run out of time. Again, let me thank everybody who participated in the hearing. We will keep the record open for several days in case someone who has not had an opportunity to submit a statement wishes to do so.

The subcommittee is now adjourned. Thank you.

[Whereupon, at 1:25 p.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. PAULA HAWKINS, U.S. SENATOR FROM FLORIDA

Mr. Chairman, once again you are to be commended for holding hearings on proposed revisions in the dairy price support program. During this subcommittee's first hearing, we heard numerous facts and figures outlining the extent of this runaway program. I think some of them bear repeating.

For many years, the dairy price support program served its purpose well. However, with the substantially higher price support levels established in the 1977 farm bill and subsequent legislation, the equilibrium between supply and demand was thrown out of sinc. By October 1, 1980, the support level had risen to $13.10 per hundredweight, 61 percent higher than four years earlier and only 10 cents less than the total of all increases over the previous 26 years.

What was the result? The accumulation of 437 million pounds of butter, 703 million pounds of cheese, and 1.1 billion pounds of non-fat dry milk.

And the corresponding increase in Government cost? A program which cost only $46 million in 1979 skyrocketed to a cost of $1 billion in fiscal year 1980, and doubled in cost to $2 billion in fiscal year 1981. Program costs for this fiscal year are once again projected to be another $2 billion.

Now we know we can't blame the dairy farmer. With low feed and beef prices, he has no incentive to reduce production. No, we can't blame the producer, however, we can blame Congress for establishing support levels far in excess of what the market can bear.

That is why yesterday, I introduced legislation S. 2265 to immediately reduce the support price from $13.10 per hundredweight to $12.60 per hundredweight, and to give the Secretary the discretion to reduce the support level to a floor of $12.00 as of January 1, 1983. I believe it important to establish a floor in the support price in order to allow producers the opportunity to make their business decisions based upon a given support price. USDA estimates that a $12.00 support price will save the Federal Government and thereby the taxpayer $3.2 billion in the next three years and will help bring supply back in line with demand. In addition, the cost of milk and milk products to the consumer will be reduced by over $1.7 billion while increasing demand by over 1.5 billion. By reducing the price support level to $12.00, milk prices in grocery stores will drop by 11 cents per gallon, cheese by 12 cents per pound, and butter by 15 cents per pound. Those people who once were priced out of the market may now be able to purchase dairy products they once could not afford. And support prices will still be 48 percent higher than they were in September 1976.

In addition, not only would a reduction in the support price save over $3 billion in Government costs and over $1.5 billion in consumer costs, but the CPI would be reduced as would the hundreds of billions of dollars in Federal programs presently indexed to the CPI.

For the sake of the integrity of the dairy programs and the thousands of dairy farmers who participate in it, for the sake of taxpayers and consumers, I believe this committee and the Congress should act to immediately reduce the dairy price support level.

I am looking forward to hearing the views of our witnesses today, and I believe that this committee can work together to solve this problem for all Americans.

STATEMENT OF HON. PATRICK J. LEAHY, U.S. SENATOR FROM VERMONT

I would first like to congratulate the distinguished chairman of this subcommittee for holding these important hearings today. This discussion will enable members of this subcommittee and the Senate to fully evaluate and study the several dairy proposals that are before us today.

I want to say at the outset that I agree that the ever-growing dairy surplus is costing the Federal Government too much money to purchase, store and maintain.

I want to say further that by working together, members of this subcommittee have an obligation to both the taxpayers and the dairy farmers of this country to work out a reasonable and equitable plan for reducing the size and cost of the dairy surplus.

However, it is my belief that this Administration is playing political football with the very livelihood of the Vermont dairy farmer.

Last year massive cuts in dairy price supports were forced through the Congress and the concept of parity was eliminated along with the semi-annual adjustment.

This year the Administration has targeted dairy again. The Secretary of Agriculture used some pretty tough language and promised major changes in the dairy program. The word went out that dairy price support levels would be cut by at least $1.00 per hundredweight.

Then the Reagan Administration changed its mind. It wants to give the Secretary of Agriculture total discretion to lower the price support level—but not until January 1, 1983. It is hardly courageous, but certain very obvious and ominous that the Administration seeks to delay its announcement until after the November elections.

It does seem clear to me that the Administration is more interested in slashing dairy to make David Stockman's balance sheets look better than in putting together a dairy program that makes sense for the consumer and the producer.

Dairy farmers themselves are deeply concerned about the situation and have been studying possible solutions. The key point we must keep in mind is the need to overcome this temporary surplus without heavy cost to the taxpayer and without damaging the ability of the dairy industry to supply the nation's needs in the long run.

Any new measure should definitely include a plan for moving more of our surplus to people who can benefit from these healthful dairy foods and for maintaining necessary emergency reserves.

Any new measures must address the issue of declining demand for dairy products. In this regard, I find the dairy promotion plans most interesting.

I have grave concerns, however, over the Administration's request for blanket authority to make changes in support levels and whether it is the best answer to bring supply back into balance with demand.

If the Secretary cut $1 off the support price, it would mean a loss of more than $26 million to Vermont dairy farmers. Since each dollar of dairy receipts represents $3 for the Vermont economy, a cut of this magnitude will mean a loss of more than $79 million to the state.

Moreover, there is no guarantee under the Administration's proposal that the Secretary would keep to a $1 cut. He could set the cut at any level and Vermont dairy farmers would be left in constant doubt about the future of the dairy program. How can any farmer plan ahead when he doesn't know when the Secretary will drop the dairy support on him?

In our evaluation of all the contending dairy proposals, we must find a fair solution. Clearly the diary surplus is a national problem in terms of its burden on taxpayers. However, the accumulation of this surplus varies considerably by region.

The most recent USDA report on the dairy program shows that the cost of the dairy surplus to the government is more than three times as great in the Midwest and west as compared to the Northeast, and more than ten times as greater as in the Southeast.

This means that an across-the-board cut in price support or production will penalize those dairy farmers in the Northeast and Southeast who are not the main cause of the problem.

I hope we will pay close attention to this fact as we proceed today.

We all want to have an effective and workable dairy program. I look forward to working with the chairman and other members of this committee to make good policy.

But that policy must be fair an reasonable to our nation's dairy farmers, and not based on reducing massive deficits by destroying this country's agricultural base.

STATEMENT OF HON. JAMES M. JEFFORDS, REPRESENTATIVE IN CONGRESS FROM VERMONT

Mr. Chairman, Senator Huddleston, and honored members of the Subcommittee, I appreciate this opportunity to discuss the dairy situation.

It was just a few short months ago that some of us met in this hearing room as conferees on the 1981 Farm Bill and decided upon the fate of farm commodity programs. It was an agonizing time for those of us involved—few were pleased with the final solution, but we all hoped that economic conditions would improve so that farmers would again be able to enjoy some prosperity.

Events have not changed much and farm income remains at the lowest level since the Depression. Safety nets that we have established to help the farm sector have either been criticized for being too low or the budgetary outlays have become too large. Too large when we are all trying to find ways to reduce the bulging deficit. For example, on February 28 of this year, the Commodity Credit Corporation investment in loans and acquisition of all commodities was $15 billion. Of this, wheat and feed grains alone accounted for $9 billion and dairy for $2.6 billion. Net 1983 budget outlays for dairy are estimated at $2 billion, and wheat and feed grains combined at $2.9 billion.

One thing that should be clear to us all since the passage of the farm bill is that a price reduction will not solve our current dilemma with overproduction. A farmer basically has two solutions when he faces a cash flow bind—he can increase his production, reduce his expenses, or some combination of the two. Thus, farmers have responded as I thought they would. Estimated USDA net outlays for dairy for fiscal year 1983 are about 100 percent greater than estimated in August of 1981. The 1982 USDA March Agricultural Outlook summarizes the current situations the best when it states that dairy production is increasing not only because of low grain and cull prices, but because income alternatives both on and off the farm are limited.

For the past several months I have been searching for an equitable solution to the overproduction problem—one which would bring supply and demand into balance without destroying farm income. Before I comment on various proposals for doing this, I would like to present some information on the health of the dairy industry in the Northeast. It is clear to me that the dairy industry is not as healthy as dairy program critics contend.

Earlier this week I received the 1981 Dairy Farm Summary from the Farm Credit Banks of Springfield, Massachusetts. The report is based on the financial records of 442 dairy farmers in the Springfield District (which covers the New England States plus New York and New Jersey) and is, I am told, a fairly representative sample of dairy farms in the Northeast. I do not intend to review the full report here, but I will highlight the most significant aspects:

Net cash income/cow declined by 5 percent in 1981 because expenses increased faster than receipts. Because living expenses and the cost of capital assets have increased rapidly, net cash income purchasing power fell by 13 percent or to its lowest level since 1977.

The average net earning per farm has decreased by 75 percent from the 1979 level.

The rate of return on assets for the average farmer is 4.6 percent while the rate of return on equity is only 1.7 percent. This means that on the average it has cost more to borrow than the farm investment has earned.

One-half of the farmers in the study had negative net earnings in 1981—they operated at a loss. They can continue to pay cash expenses but they do not have enough earnings to provide for both family living expenses and the cost of worn-out assets. They have no cash available to make principal payments on real estate.

The 1981 increase in net worth was 5.4 percent as compared to 19.3 percent in 1979. This slowing rate of appreciation—less than the interest rate—has implications for farmers' future borrowing abilities.

One-half of the farmers surveyed did not have any reserve debt capacity—they could not have made their debt payments on schedule in 1981.

Only one-half of the farms analyzed were breaking even in that they were able to cover their milk production expenses.

It is clear from this latest information that we must not overreact. Predictions for 1983 are difficult to make—we all know that too well. We heard during the farm bill conference that a 1 percent estimate error would mean a $250 million budget mistake. Not only were we all wrong when we relied on estimates during the farm bill, but the Congressional Budget Office was equally wrong in 1979 when it said, in analyzing whether supports should be established at 75 percent or 80 percent of parity for two years, that

> . . . 80 percent offers price stability and will not cause any major changes in current conditions for dairy farmers, consumers, or taxpayers, while . . . 75 percent of parity option offers lower consumer prices and taxpayer costs, but the incomes of dairy farmers would fall and price instability is more likely to occur than under higher support prices.

A frenzy for action and a short-run solution may result in a less desirable long-run situation. A question that must be asked is, what will the dairy industry look like in the future if we solve a budgetary program without concern for the longer term health of the dairy industry and hence rural economy?

I am not coming to your committee to say that we cannot afford to take action. Production must not continue at the current rate. However, I do seek caution.

In the last few months several proposals have surfaced that address the overproduction problem. In the time which I have left, I will comment briefly on these proposals.

Base plans or quotas have been intensively debated. My colleague, Steve Gunderson, and I have both introduced proposals to bring down the cost of the dairy program to the government. Our proposals are similar in that they put limits on the amount of milk that can be produced. We both recognize that supply control offers the most effective and most equitable means of reducing program costs without a sacrifice in producer income. This same conclusion was reached in a 1955 USDA report entitled, "A Study of Alternative Methods for Controlling Farm Milk Production and Supporting Prices to Farmers for Milk and Butterfat." This study concluded that a mandatory supply management program offered more potential for short-run supply reduction than any alternative program. The same report also found that any gradual reduction in support levels would not result in quick production adjustment because of the slowness of response to price changes. Eventually, this report concluded, adjustments in resource use would accelerate but at a cost in farm income.

I do understand that the Administration is opposed to quotas not only philosophically but also because they can be administratively complex. Both Mr. Gunderson and I agree that any quota plan must be limited to a specific time period or be triggered to CCC purchases in order to avoid capitalization of these production limits.

You will be hearing other proposals today, too. The National Milk Producers Federation will be discussing their dairy stabilization program, or two-price system for balancing supply and demand. Although I initially objected to this plan because it did not reward the producer who either stabilized or reduced his production, the plan now authorizes a payment to any producer who can demonstrate that he has reduced his marketings from the level of the corresponding period of the prior fiscal year. It is a base plan even though there may be some reluctance to call it such.

Many dairy farmers in the Northeast and Southeast are convinced that they will be overly penalized for excess production predominately taking place in the West and the Midwest. USDA information does confirm that the Commodity Credit Corporation is spending significantly more to purchase manufactured dairy products in both the West and the Midwest. The value of CCC purchases in the West is $2.20/cwt, in the Midwest $2.59/cwt, in the Northeast $.79/cwt, and in the Southeast $.22/cwt.

Commissioner Roger Barber of the New York State Department of Agriculture and Markets will be presenting a plan which will equitably allocate further support price reductions. This proposal has received strong support from many of the dairy cooperatives in the Northeast. The proposal would also be simple to implement.

The Administration's proposal is a simple price reduction of at least $1.00/cwt beginning January 1, but with the discretion to go further if needed. Although the proposal is simplistic, I would oppose giving the Secretary unlimited authority. During the farm bill conference, it was clear to all of us that OMB was dictating farm policy. Furthermore, I am convinced that not only is a simple price drop unequitable, it also is not likely to make a large dent in production next year. The average Northeast dairy farmer would not be able to meet his total production expenses.

I have done some calculations on the probable impact of the various alternatives using information from the 1981 Dairy Farm Summary. The chart is attached to my testimony.

With a reduction of $1.00/cwt, only the top 25 percent of the farmers, by profit group, would have enough total earnings to meet total production expenses. The most equitable proposal would be a base plan. Under such a proposal almost 75 percent of the sample would be breaking even.

Again, what can we do in the short run to bring production in line with demand? We should evaluate all these proposals carefully to insure that we do not go too far. Probably the most astute recommendation has been made by Dr. Andrew Novakovic, a highly respected dairy economist from Cornell University, in his talk at the March 22 USDA dairy symposium in Kansas City. I quote from his paper:

"Predictions for 1983 are difficult to make, but a simple price drop alone is not likely to make a large dent in production next year. Production adjustments will depend at least as much on corn prices, beef prices, and the strength of the overall economy. Without help on those fronts, milk prices would have to drop precipitously to eliminate overproduction by next year, and the havoc that would follow would be worse than another $2 billion year for USDA dairy expenditures."

I think we all agree that a 15 cent/cwt increase in October is unwarranted as it will give the wrong signal to the dairy farmer. Without this increase it will be two years since there has been an adjustment in supports. Farm income is being severely affected, for according to the Springfield Farm Credit Banks study, 1981 net earnings per farm were, on the average, 50 percent less than the 1980 level.

I do admit that Congress has a history of overreacting. Let us not overreact again. It is better to err on the aide of caution. We need to send a signal that dairy farmers will not be rewarded for increasing production; we must not destroy our capacity to produce in the process.

CHARACTERISTICS OF THE PROFIT GROUPS

	Bottom 25 percent	Third 25 percent	Second 25 percent	Top 25 percent	Average
Price received per hundredweight	$13.98	$13.98	$14.12	$14.04	[1] $14.04
Minus total milk production expenses	15.35	14.14	13.40	12.13	13.60
Equals net earnings (break even)	−1.37	−0.16	0.72	1.91	0.44
IIMPACTS OF ALTERNATIVE PROPOSALS					
1. Administration proposal: $1 reduction per hundredweight (net earnings)	−2.37	−1.16	−0.28	0.91	...
2. National milk producers federation:					
Net earnings (with no payback)	−2.62	−1.41	−0.54	0.66	...
Net earnings (with payback)	−1.37	−0.16	0.72	1.91	...
3. Base plan—Gunderson/Jeffords:					
A. 70 percent parity; 10 percent reduction over base at one-half base price (net earnings)	−1.26	−0.05	0.82	2.02	...
B. Base $13.10 per hundredweight (net earnings)	−2.02	−0.81	0.05	1.25	...
4. Barber proposal (net earnings)	−1.82	−0.59	0.27	1.46	...

[1] Blend price.

Source: 1981 Dairy Farm Summary, Farm Credit Banks of Springfield.

STATEMENT OF HON. STEVE GUNDERSON, REPRESENTATIVE IN CONGRESS FROM THE THIRD DISTRICT OF WISCONSIN

Mr. Chairman and members of the subcommittee, first of all, I would like to take this opportunity to thank you for permitting me to testify before your subcommittee today concerning the dairy price support program. Since my Congressional district has more dairy cows than any other district, the future of the dairy program is of great consequence to my constituents.

The importance of having an adequate supply of dairy products at reasonable prices for the American consumer cannot be overemphasized. It was for this reason that Congress enacted the dairy price support program in 1949.

In recent year we have experienced an overproduction problem in the dairy industry that, of course, becomes a problem for the Federal government as well since it must purchase all of the surplus production to maintain the support level for milk.

In response to the current disparity between production and consumption, Congress chose to support milk at fixed support prices in the 1981 Farm Bill rather than as a percentage of parity. This action was unprecedented in the 32-year history of the dairy price support program.

As I predicted during the debate on the Farm Bill, the result of a freeze in the support price on total milk production has been negligible. About the only thing that has happened is that a few fine young farmers have been forced out of business because of the cost/price squeeze.

Mr. Chairman, there isn't a person in this room who doesn't acknowledge that the dairy industry currently suffers from a serious overproduction problem. And there are many possible solutions to that problem.

For example, we can increase consumption through promotion, exports, and decreased imports of dairy products and dairy substitutes. All of these actions would help; yet, even taken together, they would not eliminate the existing disparity between domestic production of consumption and dairy products.

The "bottom line" is that we must, in fact, reduce production. As our action in the 1981 Farm Bill so adequately demonstrates, we will not accomplish this task by freezes or decreases in the support price for milk. Rather, lower production will result only when dairy farmers are rewarded for cutting back in production.

Last January, Dr. Robert Cropp of the University of Wisconsin Extension, who is seated next to me today, and I developed what we call the Milk Marketing Improvement Act that achieves this goal. I introduced this proposal on April 5, 1982 and a copy of H.R. 6076 and a summary of its contents have been provided to you in your committee materials.

It is important to point out that our plan not only rewards dairy farmers who reduce their marketings but, at the same time, it will save the Federal government approximately $1.3 billion in expenditures on the dairy price support program in fiscal year 1983 alone.

That point deserves some brief elaboration. As you know, we are currently involved in the consideration of the First Budget Resolution for fiscal year 1983. Each of the various budget proposals make certain assumptions of savings in at least some federal programs.

In some of those proposals a fiscal year 1983 savings is assumed for the dairy price support program. Without exception, the Gunderson Milk Marketing Improvement Act achieves the savings projected for the dairy program in any of these budget proposals.

Yet, when compared with the present support price or the income received from the Administration's proposal or the National Milk Producer Federation's proposal, the Milk Marketing Improvement Act will provide greater income to producers. In fact, if a producer cuts back his marketings, he will actually have a greater adjusted gross income than the producer who increases his marketings.

Clearly, there is an enormous incentive to reduce production under our plan, Mr. Chairman. As you can see from the chart submitted with our materials, the plans presented by the Administration and the Federation do not provide a similar incentive.

Rather than go in to detail about our plan at this time, I will defer to Dr. Cropp for that explanation. Before I do that, however, I would again like to thank you for letting us appear before you today to consider this important issue.

MILK MARKETING IMPROVEMENT ACT OF 1982

PURPOSE

Purpose of the Milk Marketing Improvement Act of 1982, introduced by Congressman Steve Gunderson, is to assure consumers of adequate milk supplies at reasonable prices while permitting farmers to receive prices necessary to maintain needed milk production over the long run. In addition, it will preserve and protect the economically and socially beneficial family farm structure.

The bill will provide for milk supply controls to discourage dairy herd expansion and encourage cow culling in periods of surplus milk production.

PROVISIONS

The Gunderson bill establishes an annual marketing base for every American dairy farmer. A National Dairy Board would also project annual production and commercial market requirements. If a surplus is anticipated above that which the government must purchase by law, the Board will establish assessments on marketings above a certain percentage of each dairy producer's base. These assessments will be used to purchase the additional surplus and, thus, maintain a dairy price support system of 70 percent of parity. It is a self-help program to alleviate the serious problem of overproduction.

KEY POINTS

More specifically, here are the key provisions of the Gunderson Milk Marketing Improvement Act:

70 percent of parity maintained

The price of manufacturing milk will be supported at a minimum of 70 percent of parity, with annual adjustments.

Purchases of Government

The Federal Government will be responsible for purchasing excess production equal to 3.5 billion pounds milk equivalent *plus* the milk equivalent of all milk, dairy products, and casein expected to be imported into the U.S. in the upcoming milk marketing year (October 1-September 30).

Individual marketing base

Prior to September 15th of each year, the Secretary of Agriculture will announce an individual marketing base for each dairy farmer for the upcoming milk marketing year. The following rules will apply:

1. Farmers producing for more than three years.—A moving average of the most recent three years of marketings will constitute an individual farmer's base for the upcoming marketing year.

2. Farmers producing less than three years.—If a farmer has been producing at least a year, he will receive his average annual marketings as a base. If a farmer has produced for less than a year, the State Dairy Commission will assign a base to him, determined by his monthly marketings. These bases will not be less than 350,000 pounds.

3. Bases non-transferable.—Bases cannot be transferred from one dairy production facility to another. If a farm is sold, the purchaser obtains the existing base of the production facility on the farm. A sole producer cannot hold more than one base at any time.

4. Bases may be rented.—A producer who rents the dairy production facility of another also rents the base associated with that facility or the portion of it assigned to him by the owner. No producer may rent more than one base at any time. If a renter changes farms, he assumes the existing base of the new production facility or the portion assigned to him.

5. New producers and unused bases.—Bases not used for a period of two years are lost and may be reassigned to new or existing producers by the State Dairy Commission. First priority for reassignment will be given to new, low net worth dairy farmers. New producers not purchasing the dairy production facilities of an existing producer with an assigned base may be assigned a base of not less than 350,000 pounds by the State Dairy Commission.

National marketing base

Prior to September 15th of each year, the National Dairy Board, appointed by the President, will project total milk marketings and commercial market requirements (including milk needs for government food programs). Based on these projections, the existence of a surplus will be determined. If the projected surplus exceeds that which the government must purchase by law, the National Dairy Board will establish a percentage reduction in marketings required of all dairy producers for the upcoming year. This percentage, then, will be applied to each individual dairy producer's base.

Assessment categories

There will be three general categories of assessments:

1. No Assessment.—Dairy farmers who reduce their marketings in line with the percentage reduction established by the National Dairy Board will receive full support price for their production and no assessment.

2. Small Assessment.—For marketings above the percentage reduction set by the Board, but less than the dairy producer's marketing base, a small assessment will be made to assist in the purchase of this surplus production.

3. Significant Assessment.—For marketings above a dairy producer's marketing base, a significant assessment will be made to purchase surplus production and to discourage this expansion in a time of overproduction.

Assessment procedure

Cooperatives and milk plants will be notified of the percentage reduction applicable to the marketing bases of all dairy producers. Assessments will be determined on a quarterly basis and deducted in one-third installments from each producer's next three milk checks.

Use of funds

Assessments will first be used to purchase any surplus above that which the government must purchase by law so that 70 percent of parity may be maintained. Assessments will also be used to pay the expenses of the National Dairy Board. Any excess assessments at the end of a marketing year may be refunded to producers or used for promotion, market expansion, or research.

National dairy board

The National Dairy Board will consist of eight dairy farmers or their representatives, one processor representative, two public representatives, and the Secretary of Agriculture.

COMPARISON OF ADMINISTRATION, FEDERATION, AND GUNDERSON PLANS

Fiscal Year 1983	ADMINISTRATION 90%	ADMINISTRATION 100%	ADMINISTRATION 110%	FEDERATION 90%	FEDERATION 100%	FEDERATION 110%	GUNDERSON 90%	GUNDERSON 100%	GUNDERSON 110%
Cows X	36	40	44	36	40	44	36	40	44
Production/ Cow =	12,500 #	12,500 #	12,500 #	12,500 #	12,500 #	12,500 #	12,500 #	12,500 #	12,500 #
Total Production	450,000 #	500,000 #	550,000 #	450,000 #	500,000 #	550,000 #	450,000 #	500,000 #	550,000 #
X $/cwt	$12.27*	$12.27*	$12.27*	$13.10	$13.10	$13.10	$13.79	$13.79	$13.79
Gross Income On Milk Production	$55,238	$61,375	$67,513	$58,950	$65,500	$72,050	$62,055	$68,950	$75,845
Assessments	none	none	none	none	$11.57/cwt X 50,000 = $5,785	$11.57/cwt X 55,000 = $6,364	none	$7.34/cwt X 50,000 # = $3,670	$7.34/cwt X 50,000 # + $8.79/cwt X 50,000 # = $8,065
Adjusted Income on Milk Production	$55,238	$61,375	$67,513	$58,950	$59,715	$65,687	$62,055	$65,280	$67,780
Income on Culled Cows	$2,000	none	none	$2,000	none	none	$2,000	none	none
Feed Cost Savings (+) or Loss (-)	(+)$4,000	none	(-)$4,000	(+)$4,000	none	(-)$4,000	(+)$4,000	none	(-)$4,000
Adjusted Gross Income	$61,238	$61,375	$63,513	$64,950	$59,715	$61,687	$68,055	$65,280	$63,780
Program Cost to Gov't	$1.2 bil.	$1.2 bil.	$1.2 bil.	$870 mil.	$870 mil.	$870 mil.	$498 mil.	$498 mil.	$498 mil.

*$13.10/cwt until 1/1/83;
$12.00/cwt thereafter.

ASSUMPTIONS:
1. The farmer's average annual production is 500,000 pounds.
2. The farmer has a herd of 40 cows, each producing 12,500 pounds.
3. Variable costs are approximately $8.00/cwt.
4. Cull cow price is $500/cow.
5. In 1983, there will be 10 percent excess milk production in the U.S.

STATEMENT OF DR. ROBERT CROPP, UNIVERSITY OF WISCONSIN EXTENSION

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to testify at this hearing concerning the dairy price support program. Because of the economic importance of dairying to agriculture and the economy as a whole, any change in the milk price support program deserves careful consideration as to both short and long-run implications. The dairy price support program based on the parity concept has served the dairy industry and consumers well since 1949. The objective of assuring consumers of a continuing adequate supply of milk and dairy products at a reasonable cost has been met. In January, 1982 the Consumer Price Index was 282.5 (1967=100), and the Index of Retail Prices for all food was 281.0, while the Index for Retail Prices of Dairy Products was only 245.8. Thus, the retail prices of milk and dairy products have increased less than the retail prices of all foods.

The dairy price support program has made for a very stable dairy industry, benefiting dairy farmers, dairy plants, and consumers. Widely fluctuating production and prices in recent years for other commodities such as cattle, hogs, and grains have adversely effected the economic well-being of the agricultural industry. This economic stability has enabled the dairy farmer to lead all areas of agriculture, except for perhaps poultry, in increased labor efficiency. Milk output per man-hour increased 12.1 percent in 1980 and 11.7 percent the year earlier. The dairy farmer's improved labor efficiency has increased almost 200 percent since 1967. One of the key measures of good economic performance is improved efficiency. Efficiency means better returns to the industry, lower prices to consumers, and is indeed anti-inflationary.

Any change in the dairy price support program must recognize the beneficial economic aspects of the past program and be evaluated in light of its short-run and long-run impact on economic performance. A change in the dairy price support program should not stifle efficiency nor adversely change the structure of dairy farming, both of which would mean higher consumer prices in the long-run.

The dairy price support program should maintain the parity concept that has seved the dairy industry well. Some criticize the parity concept as outdated. While the parity price calculation is not perfect, it remains the best measurement of fair and equitable farm milk prices. Since parity does not fully recognize changes in efficiency of milk production, the percent of parity at which milk prices are supported is more of an issue than the parity concept itself.

The parity support price program for milk still works effectively. Since 1970, CCC purchases under the price support program have been 5 billion pounds or more of milk equivalent in only five fiscal years, 1971 (7.2 billion pounds), 1972 (6.6 billion pounds), 1973 (5.0 billion pounds), 1980 (8.2 billion pounds), and 1981 (12.7 billion pounds). Only the last two years were at burdensome levels. In addition, farm milk prices have remained near or above the support price each year since 1970 until April 1, 1980.

It may be true that the change in the minimum support level from 75 percent to 80 percent of parity with semiannual adjustments under the Agricultural and Consumer Protection Act of 1977 was too high. Nevertheless, what really got the dairy industry in trouble was declining returns among hog, cattle, and grain farmers. With fed cattle prices only in the mid to high 60's, hog prices in the mid 30's to low 40's, and corn and soybean prices below production costs in recent months, dairy farming appeared to be more attractive than other farming enterprises. As a result, capital has been attracted into dairy farming. The low cull cow prices have also been a disincentive to a reduction in milk cow numbers. Milk production and milk surpluses continue to build because of little or no improvement in returns from these farming enterprises.

The dairy industry has a surplus problem which needs to be solved. Various solutions have been suggested, most of which involve simply cutting the price of milk. The record is clear that a mere cut in the price paid to dairy farmers will have an immediate effect of increasing milk production. Increased milk production is the only logical decision for a dairy farmer faced with high fixed costs and high interest rates. In fact, the reaction of many agricultural lending institutions to a cut in milk prices is to advise their farmer customers to increase milk production in an attempt to maintain cash flow and meet expenses.

Eventually a cut in the price of milk paid to farmers will decrease milk production and solve the surplus situation. However, this is accomplished by cutting the number of dairy farmers. The younger and low net worth farmers are the first to be eliminated. And, the highly indebted younger farmers operate some of the most efficient and better managed dairy farms. These are the type of dairy operations that need to be maintained for a continued viable and efficient dairy industry. These operations represent the type of family dairy farm structure that everyone agrees should be preserved.

Let me use some of our Wisconsin cost data to further illustrate the unfavorable impact of a simple cut in milk prices. Assuming a 40 cow herd with 14,000 pounds of milk per cow and a milk price of $13.50 per hundredweight, a dairy farmer with no debt would have a net cash income of $24,514 on which to live. In contrast, a diary farmer with a net worth of 25 percent would have a net cash income of only $7,800, about $4,400 less than an acceptable living allowance of $12,000. A cut in the price of milk by $1 per hundredweight would further reduce the farmers net cash income by $5,600. In order to live and meet expenses, this low net worth farmer would need to increase milk production or sell out.

A price cut eventually forces out many of the better, younger, and more progressive dairy farmers. An inefficient dairy farmer with no or little debt, however, can survive the price cut. For example, a diary farmer with only 10,000 pounds of milk per cow, almost 2,000 pounds below the national average, at a milk price of $13.50 and no debt would have a net cash income of $13,441. A one dollar cut in the milk price will cut this farmer's net cash income about $4,000 and he will survive. The other type of farmer who can survive a price cut is the large, corporate operation that is highly leveraged. These operations may be in a position to weather a price for one or two years by increasing milk production during this period of time.

In Wisconsin, the current full cost of milk production averages around $14.30 per hundredweight. Accordingly, any dairy farmer who is carrying a relatively large debt load is already struggling to maintain his cash flow to meet expenses. A cut in milk prices would place a heavy economic loss on the dairy industry and the economy as a whole.

The multiplier effect on a cut in dairy prices is also staggering. Dairy farmers have one of the highest income multipliers of all segments of agriculture. It has been estimated that, for every dollar earned by a dairy farmer, another five dollars is generated in the economy. I have personally received several calls this spring from feed and fertilizer dealers as well as machinery companies who are concerned about what will happen with the price of milk. Their sales are hurting because dairy farmers are cutting back on expenditures. Wisconsin agribusiness firms are particularly concerned because 59 percent of Wisconsin's cash farm income is earned from farm milk sales.

A solution to the surplus milk situation must, therefore, be one that cuts production and not dairy farmers. This can only be accomplished by rewarding those farmers who reduce their production. The Gunderson Milk Marketing Improvement Act, H.R. 6076, does just that. I would like to take this opportunity to explain the major provisions and primary advantages of the bill.

1. H.R. 6076 retains the effective parity concept in supporting the price of milk. However, it recognizes that, because of the current surplus situation and economic conditions, the minimum support level should be 70 percent of parity and adjusted annually. This parity concept will maintain farm milk prices at reasonable levels and assure consumers of an adequate supply of milk over the long run.

2. Since the government is responsible for purchasing only 3.5 billion pounds, milk equivalent, and dairy farmers themselves are responsible for the remaining surplus, annual government costs for the dairy program will be reduced by approximately $1.3 billion in fiscal year 1983. Furthermore, the Gunderson proposal reduces government expenditures by more than any other proposal. For fiscal year 1983, spending under the Gunderson plan will be $702 million less than the Administration proposal and $372 million less than the National Milk Producers proposal.

3. Since dairy farmers are responsible for purchasing the major share of surplus dairy products, they will be more responsive to the excess problem and reduce production accordingly.

4. By supporting milk prices at 70 percent of parity, the support price on October 1, 1982, is estimated to be $13.79 per hundredweight, up 69 cents from the current support price of $13.10. Those farmers who reduce their milk production below their established base by the percentage determined by the National Dairy Board will receive this higher price. This increase provides an incentive for dairy farmers to cull

cows and cut milk production. After considering the income from these culled cows and the reduction in feed and other variable expenses, their net farm income could actually increase, enabling them to better meet cash expenses. No other proposal allows for increased net income to those who cut production. In fact, they actually decrease net income and, therefore, offer no incentive to an individual farmer to cut production.

For those farmers who produce 100 percent of their base in times of surplus, an assessment will occur on the surplus portion of this milk. For those farmers who expand production beyond their base, a greater assessment will occur for that milk produced over their base. This will mean that the greater the level of expansion by the farmer, the less net income he will receive for his milk. In fact, the assessments will reduce the net price on the surplus production below the variable cost of production, thereby discouraging dairy expansion and encouraging reduced production.

Under both the Administration proposal and the National Milk Producers Federation plan, net farm income may be actually increased by expanding production. Thus, there is no incentive to reduce production under either of these proposals. Even though net income could be increased by reducing production under the Federation proposal, an increase in production of at least 26.5 percent would create the same net income. An expansion in excess of that percentage could result in greater net income than a reduction in production.

5. The program has a three-year moving base. This allows an individual producer to improve feeding and breeding management and also get a one or two percent increase in production per cow per year without penalty. This certainly is more feasible than adding more low-producing cows. Thus, the Gunderson plan rewards good management and discourages poor management. Better management and more milk per cow does not cause a surplus milk situation; rather, a surplus is created by adding low-producing and unprofitable cows.

6. The young or low-net-worth dairy farmer is offered some assurance or survival under the Gunderson proposal. These farmers simply can't afford a reduction in milk prices of one dollar or more. A short visit with a young dairy farmer or rural banker will bear this out. Credit institutions are fearful of the consequences of a cut in milk prices on their dairy farmer borrowers.

7. A National Dairy Board composed of representatives of dairy farmers, processors, and the public will offer an effective and responsible means of administering a milk price support program. The National Dairy Board along with the State Dairy Commissions provides the needed flexibility in adjusting bases of individual producers when justified and in the establishment of sufficient assessments to effectively reduce existing surpluses.

8. The Gunderson proposal is acceptable to credit institutions because individual dairy farmers may cut milk production and still meet their financial obligations.

9. The proposal will not result in an over-reduction in the milk supply by forcing a number of young or low-net-worth farmers out of business that would lead to a milk shortage and rising consumer prices in two or three years. Thus, the Gunderson proposal assures consumers of an adequate supply of milk at reasonable prices even after the surplus problem is solved.

10. Although considerable time and effort would be involved in establishing a base program, once in operation, its administration would be relatively easy and inexpensive (amounting to less than one cent per hundredweight of farm milk sales).

11. The Gunderson plan has been criticized in that it make no allowances for reduced retail prices to consumers to increase sales of milk and milk products. This criticism is not logical. With the demand for milk and dairy products being inelastic, a substantial drop in retail prices (and, in turn, and even greater drop in farm prices) would be needed for any significant increase in sales.

When considering the negative impact this would have on dairy farm income and agribusiness firms, a cut in retail prices is not economically sound. Increased advertising, promotion, and product development programs would make more sense. It is also noteworthy to point out that commercial milk sales are estimated to increase from 121.6 billion pounds in fiscal year 1982 to 123.9 billion pounds in fiscal year 1985.

In summary, the Gunderson bill would be a highly effective means of eliminating the existing dairy surplus. It reduces Federal government expenditures and meets suggested budget guidelines. Most importantly, it reduces production without adversely affecting the highly efficient family farm structure. Finally, it assures consumers of an adequate supply of milk over the long run at a reasonable cost.

Again, I would express my appreciation to the Chairman and the members of the subcommittee for this opportunity to testify before you about the dairy price support program.

Statement of Hon. Richard E. Lyng, Deputy Secretary of Agriculture, U.S. Department of Agriculture

It is a pleasure to have this opportunity to discuss the dairy price support program with you. In general, this program performed very well during the 1960's and 1970's. It assured adequate supplies of dairy products at reasonable prices to consumers as it was intended to do. But, there are problems with the program now which demand a solution. Program costs have skyrocketed from only $46 million in fiscal year 1979, to $1 billion in fiscal year 1980, then to $1.93 billion last fiscal year, and we are expecting net outlays of $1.94 billion this fiscal year. Costs of this magnitude simply cannot be allowed to continue.

The Reagan Administration supports the need for a dairy price support program. We accept the public policy which provides for adequate, steady supplies of pure, wholesome milk at reasonable prices. To do this requires a program which provides dairy producers an adequate return. This can be done, but must be done at substantially lower costs to the government and in a way that can be administered in a timely manner. Before discussing our specific proposal, it may be of value to review the recent history of the program.

Prior to 1977, dairy legislation required the Secretary of Agriculture to support the price of milk between 75 and 90 percent of parity on an annual basis. Even though it was not specifically required by law, the usual procedure was to make a smaller price adjustment in the middle of the year to maintain the support level and to avoid having to make a very large price adjustment at the beginning of the next milk marketing year.

The Food and Agriculture Act of 1977 increased the minimum support level from 75 to 80 percent of parity and mandated a mid-year adjustment of the support price. When the 1977 Act was passed, there were reservations about mandating 80 percent of parity with semiannual adjustments. That is the reason the 1977 provisions were enacted for only two years. In 1979, the impact of these changes was not yet fully apparent—program costs were still low—and as a result, these provisions were extended for two additional years. When production began to increase rapidly in fiscal year 1980, it became clear that continuing support prices at 80 percent of parity with semiannual adjustments was a major mistake.

Here is what has happened since fiscal year 1979:

Year	Support price (dollars per hundredweight)	Milk production (billions of pounds)	Commercial use (billions of pounds)	CCC net removals (billions of pounds)	CCC net outlays (millions of dollars)
Fiscal year:					
1979	9.87/10.76	122.6	120.1	1.1	46
1980	11.49/12.36	127.3	119.3	8.2	1,031
1981	13.10	131.7	120.0	12.7	1,934
1982 [1]	13.10	135.5	122.0	13.3	1,941

[1] Estimated.

The 80 percent of parity requirement increased the milk support price level from $9.87 per hundredweight at the beginning of fiscal year 1979 to $11.49 per hundredweight at the beginning of fiscal year 1980. During fiscal year 1980, milk production increased 4.7 billion pounds, commerical use dropped 800 million pounds, and CCC net removals increased 7.1 billion pounds.

By fiscal year 1981, 80 percent of parity had increased from $11.49 to $13.10 per hundredweight, milk production increased another 4.4 billion pounds, and CCC net removals increased 4.5 billion pounds. In fiscal year 1981, CCC purchased 12.7 (milk equivalent) billion pounds of butter, cheese, and nonfat dry milk at a cost of $2.0 billion—CCC net expenditure were $1.9 billion. Fiscal year 1982 net expenditure are now expected to be near the fiscal year 1981 level.

It would be wrong to blame milk producers for the overproduction problem. The problem was not caused by producers—it was caused by those in government who did not have the foresight to see what would happen with the passage of legislation that provided for inflexible adjustments in the price support level which bore no relationship to the marketplace. Dairy producers did what any other producer whould have done. They reacted to the price signals that were being sent. The trouble was that the government was sending the signals—and the signals were wrong. Surely the one lesson that we should have learned is that minimum dairy price supports indexed to rigid formulas can cause serious problems.

When this Administration took office, the program was out of control. An early decision was made to hold the price line as a first step towards getting milk production under control. A proposal was made to eliminate the semiannual price increase that was scheduled for April 1, 1981. With the help of the Congress, the Administration was able to hold the support rate at $13.10 per hundredweight, rather than raise the price support level as called for in the 1977 Act. The second step was to seek legislative authority in the new farm bill to forego any further price support increase until milk production was brought into balance with the consumption of dairy products. We faced some strong opposition, but we were able to achieve some moderations in annual price support increases.

Production adjustment requires lengthy time periods in the dairy industry. It takes more than two years to bring a heifer calf into the milking herd. Once in the herd, milk cows have a productive life of 3 to 5 years. Authority to maintain the price support at $13.10 per hundredweight in fiscal year 1982 has given us more time to evaluate current production conditions, but we are still faced with the statutory requirements to increase price supports again October 1, 1982, and to continue to increase them in 1983 and 1984.

It is now clear that the legislative changes made last year did not go far enough. We could spend another $6 billion between now and 1985 and still not solve the basic overproduction problem, an overproduction problem of considerable magnitude. As of May 21, 1982, we had 419 million pounds of butter, 684 million pounds of cheese, and 1,045 million pounds of nonfat dry milk in government storage—a total of 15.4 billion pounds milk equivalent—and these stocks are continuing to increase at an alarming rate. The rigid price support increases, mandated in the 1981 Farm Bill, could more than double government stocks by 1985. We cannnot let that happen—we in the Department of Agriculture know it, you in Congress know it, and dairy farmers know it.

Dairy producers understand the problem and they want a solution. They recognize that continued government costs at current levels could well endanger the basic program and threaten the stability of the industry. The overridding mood at the Kansas City dairy symposium called by Secretary Block was to find a solution—but, whatever the solution, it has to work. We cannot afford to make another mistake. Further legislative changes must be made to ensure that the dairy surplus situation is brought under control.

Our overall dairy package covers many areas—disposition of surplus stocks, research product promotion and market development—much of which does not require further legislative authority. However, we are requesting legislative authority in three areas: (1) discretionary authority for the Secretary of Agriculture to set the price support as needed to bring milk production under contol, (2) establishment of a Dairy Advisory Board and (3) amendments to Section 416 of the 1949 Act to allow the Commodity Credit Corporation (CCC) to donate dairy products overseas and to permit domestic donation of these products to needy households.

Discretionary authority to set the price support does not mean that the price support would drop automatically. We are approaching a critical phase in the production cycle which could establish the production pattern, up or down, for the next several years. The rate of increase in milk production has been slowing since the first of the year and may even begin to drop below year-earlier levels in the coming months. At a crucial turning point like this, price expectations are extremely important. The choice is simple. Will you maintain the price support increases mandated for the next three years—price support increases that may trigger a new period of production expansion and steadily increasing program costs? Or will you give the Secretary discretionary authority to hold the price line, or even drop the price support level next January, if that is necessary to bring milk production and program costs under control?

If he is given that discretionary authority, the Secretary of Agriculture has pledged not to adjust the present support level until January 1, 1983. In the event that milk production has not begun to decline by January, we believe that the price support would have to be lowered, to perhaps as low as $12 per hundredweight at that time. Clearly, timing has become extremely important. The sooner that Congress gives a clear signal to the industry, by providing discretionary authority to the

Secretary to lower the support price if necessary, the greater the likelihood that no reduction or a more modest reduction in the support price will be needed.

We are fully aware that there is opposition to the granting of full discretionary authority to the Secretary of Agriculture to determine a proper price support level. In the past, the Congress has insisted upon some mandatory minimum price support levels. May I submit that this rigid requirement has, since 1977, created the massive problem that we face today. The blunt fact is that the Congress often moves too ponderously, too slowly, and, yes, sometimes even too politically, to make timely and critically needed adjustments in the level of dairy price supports. The Secretary of Agriculture should be given this discretionary authority as a practical step toward effective, responsible government.

Despite what others may say, our proposal would put a major constraint on the Secretary of Agriculture by requiring that he provide a support price level which will "assure an adequate supply of pure and wholesome milk." No Secretary of Agriculture would be permitted to lower the support price to a level which could result in a milk shortage.

May I respectfully remind this Committee that this is the third time in fifteen months that I have testified before you asking for a change in dairy legislation. If our proposal is rejected in favor of a more rigid, non-adjustable plan, there is a strong chance that within another year we will be back again asking for additional adjustments. This should be avoided and can be avoided by adopting our proposal.

To assist the Secretary in using his discretionary authority to set the milk price support, we are also requesting authority to establish a Dairy Advisory Board consisting of dairy producers and others knowledgeable of the industry. Board members would advise the Secretary on a wide range of dairy issues, including the setting of price support levels and the disposition of government-owned inventories of dairy products.

Finally, we are requesting reinstatement of Section 416 authority whereby the Commodity Credit Corporation will be able to donate dairy products for use abroad. This authority would provide for direct CCC donations abroad, in addition to the Public Law 480 programs, and would facilitate constructive uses by the CCC of its surpluses while allowing the United States to enhance its role in responding to food needs of hungry people around the world. The amendments to Section 416 also would authorize expanded distribution to needy households in the United States, which is currently prohibited, except in very limited circumstances.

I will not go into the specifics of the other parts of our dairy program that do not require legislative action. The program is extensive and materials describing each of the separate parts have been supplied to the Committee.

I would like to mention, however, that we are making administrative changes to reduce the level of dairy product stocks. These include authorizing an additional 120 million pounds of cheese for distribution to low-income households, for a total of 220 million pounds donated this year, and providing nearly $500 million in bonus dairy commodities (approximately 700 million pounds) to eligible institutions this fiscal year. In addition, we are increasing the distribution of surplus dairy products through expansion of the Food Bank Distribution Projects, sale of out-of-condition nonfat dry milk for animal feed, and increasing donations under the Public Law 480 food aid program.

One last thought. The dairy price support program has worked well in the past and it can continue to work well in the future. The strength of our proposal is in its basic simplicity. It does not require a large new bureaucracy to function. It gives clear price signals to producers, and buffers producers and consumers for seasonal and cyclical price instability without distorting the long-term price signals needed for long-range planning in this industry. The fact that the price signal has been wrong since 1979 is not the fault of dairymen and it is not the fault of the way in which the program has operated. Some of the same persons who opposed our legislative proposals last year are now admitting the program had failed and the program needs drastic restructuring. Bills have been introduced to create producer-operated boards to set prices and control the supply of milk and to establish complex price formulas and two-price plans that cannot possibly be used as a guide for production decisions. These proposals would create a vast bureaucracy to make production decisions and operate the system. Worst of all, under some of these proposals producers would be required to give up their freedom to make their own decisions and to accent production bases and complex pricing plans as part of the price of being allowed to produce milk. We have had experience with supply control plans in the 1930's and late 1940's—they didn't work then and they are not likely to work now. For these reasons, I urge you to accept the dairy program the Reagan Administration has offered which will, in the long-run, assure viability to the entire dairy industry.

Thank you.

STATEMENT OF NORMAN H. BARKER, PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION

I am Norman H. Barker, a dairy farmer from Pratt, Kansas. I am President of the National Milk Producers Federation and a member of Associated Milk Producers, Inc., a dairy co-operative marketing association headquartered in San Antonio, Texas.

The National Milk Producers Federation is a national farm commodity organization representing dairy farmers and the dairy cooperative marketing associations they own and operate throughout the nation. The vast bulk of the nation's milk supply is marketed by farmers through their dairy cooperatives. These cooperatives represent the effort of the individual farmer to provide himself with effective representation in the marketing of his production and to assure a market at reasonable prices for his product.

Through the National Milk Producers Federation, dairy farmers and their cooperatives have provided a forum in which they can effectively address issues of public policy which impact on their industry. Organized in 1916, the federation is the oldest and largest national farm commodity organization. Through a combination of means, the process of policy formulation within the Federation provides dairy farmers across the nation an opportunity to participate in the development of policy proposals for their industry.

THE DAIRY PRICE SUPPORT PROGRAM

The Dairy Price Support Program is a basic element of national dairy policy. Since its initiation as part of the Agricultural Act of 1949, the program has provided a minimum degree of price assurance to farmers as the means of assuring the production of adequate supplies of milk for the markets of this nation.

With all the discussion in recent months of the need to make adjustments in the program, there is a very great danger that the basic success of the program may be overlooked. The program has been effective. It has worked. It has assured adequate supplies of milk and dairy products for the consumers of the nation at ever declining real prices.

If we look at the period during which the price support program has been in effect, we find that the real consumer price of milk and dairy products has constantly declined. The time worked by the average U.S. wage earner to earn the money to buy a given quantity of dairy products has steadily decreased.

Time Worked to Earn Money to Purchase Dairy Products 1/

	1950	1979
	-minutes-	
1-lb. butter	29.6	15.0
½ gal. milk, in stores	15.8	8.7
½ lb. American Cheese	11.7	9.6

1/ Based on hourly wage rates of all manufacturing industries.

The program has provided a stability that has allowed dairy farmers to make long term commitments leading to greater efficiencies on the farm. These have resulted in reduced labor requirements and increased production per cow. In 1950, dairy farmers devoted an average of 2.36 hours of labor to the production of 100 pounds of milk. By 1980, that had declined to .30 hours. In 1950, the average dairy cow in the United States produced 5,314 pounds of milk. By 1981, that had increased to 12,147 pounds.

By any standard of measurement, the Dairy Price Support Program has been a success in achieving its stated purposes.

Today, there is great concern over the need to make changes in the program so as to relieve pressures in the form of high government costs and the associated rising level of dairy product purchases by the Commodity Credit Corporation.

We recognize the need to control government costs. Dairy farmers themselves, through the National Milk Producers Federation, have developed proposals which will do this in a specific, positive manner.

But care must be taken to avoid creating problems worse than the one being addressed. In addition, it would be a serious error to view the present problem confronting the dairy industry and the Dairy Price Support Program as simply a dairy problem.

It is, in very large measure, a reflection of the conditions that have confronted American agriculture over the past three years or more. During that period, the prospect of an economic return from dairying has been relatively better than other agricultural enterprises. The result has been that many farmers have diverted resources to milk production in an effort to improve a bleak farm income picture.

The drastic decline in net farm income over the past three years must be reversed and economic stability restored to agriculture if the measures under consideration here today are to be successful.

DAIRY STABILIZATION PLAN

On March 3, Secretary of Agriculture Block told dairy farmers attending the Western Dairy Conference in Seattle that costs under the Dairy Price Support Program were "...embarrassing...unacceptable... intolerable." At the same time, the Secretary was critical of the dairy industry for failing to develop proposals to deal with rising milk production and the associated increase in Commodity Credit Corporation costs. The Secretary called on the industry to develop recommendations and to work with the Department of Agriculture in putting forth plans which would meet the needs of dairy farmers, consumers and goverment.

Actually, the National Milk Producers Federation had been working on basic policy proposals aimed at these goals for some time before the Secretary made his remarks. Just the day before, the Federation Board of Directors had given unanimous approval to two program concepts which are before you today. These call for legislation to authorize development of a National Dairy Products Promotion program funded by a five cent per hundredweight assessment on all milk marketed and a three year amendment of the dairy price support legislation to establish a two-tier price support program under which dairy farmers will accept a significant portion of the responsibility for the cost of price support operations.

These programs have been discussed in detail with dairy farmers throughout the country during meetings this winter and spring. As the result of these discussions, there have been revisions and refinements in the proposals. They do represent an earnest, responsible approach by dairy farmers themselves to the problems presently confronting the dairy industry.

My remarks today will be directed primarily toward the Dairy Stabilization Plan. Mr. Tom Camerlo, a dairy farmer from Florence, Colorado, First Vice President of National Milk Producers Federation and President of Mountain Empire Dairymen's Association, will address the National Dairy Products Promotion Program in detail. I would like to associate myself with his remarks and wholeheartedly endorse his recommendations.

The Dairy Stabilization Plan seeks to maintain the minimum price assurance and stability so essential to the dairy farmer while bringing about the production adjustment needed to balance supply with demand. It does so in a very direct and specific manner that also limits the Federal budget exposure to clearly identifiable levels.

The basic mechanism for the program is a two-tier price support system. The first level of price support would be set at the present level, $13.10 per hundredweight, for the 1982-83 marketing year. This would apply to that portion of the nation's milk supply needed to meet domestic commercial market requirements. In succeeding years, the price support on this portion of the milk supply would be established at the percentage of parity that $13.10 represents on October 1, 1982--now estimated to be about 68 percent of parity.

For that portion of the milk supply in excess of domestic commercial market needs, the level of price support would be determined by the National Dairy Board established under the program. The basic determining factor in setting this level of price support will be the amount of money necessary to fund the producer responsibility under the program. This producer responsibility is a new concept in farm price stabilization programs. Dairy farmers would jointly bear the cost of the Dairy Price Support Program beyond a specified level of Federal responsibility.

The Federal responsibility is set at the purchase of dairy products equal to five billion pounds milk equivalent during any marketing year. Any CCC purchases in excess of that amount would be funded by dairy farmers. The five billion pound Federal responsibility is not merely an arbitrary number. Over the long term, the Federal government has used about 2.6 billion pounds milk equivalent of dairy products in the various domestic food assistance programs--largely the child nutrition programs of USDA. This is a continuing need, a part of the overall commitment to improved nutrition. Each year, about 2.4 billion pounds milk equivalent of dairy products are imported into the United States. This is just the milk equivalent of cheese, butter and related products. It does not include the milk displaced in growing quantities by imports of casein and caseinates. These imports do, to a great degree, displace domestic milk.

The producer responsibility for the program would be funded through the reduced price support provided on excess milk and through the proceeds from sales of dairy products from inventories acquired under the price support program.

As the attached projections of milk production, consumption and removals indicate the total cost of the program in the coming year would be $2,121 million. The Federal portion of that cost, however, would be reduced to $792 million while producers would fund the remaining $1,329 million. If there were no rapid reduction in milk production and if no returns were realized on the 11.9 billion pounds milk equivalent of dairy products acquired, this would mean a reduction in the price paid farmers for this excess milk of $11.17 per hundredweight.

This reduction would be applied uniformly to all dairy farmers. The process would really be quite simple. Whoever is responsible for paying a farmer for his milk--his cooperative, a fluid milk handler, or processor--would reduce the payment to the farmer by the amount determined necessary on that portion of the total milk supply determined excess to market needs. These funds would then be remitted to the Commodity Credit Corporation and placed in a separate account for use in funding the price support program.

This reduction in price alone would, in the long term, bring about a reduction in milk production. But standing by itself, it is little different from a simple reduction in the price support level. Any reduction in production would come about as dairy farmers exhausted their resources and made the final decision to leave the dairy business.

To avoid this consequence and to encourage a more rapid production adjustment, provision has been made for a very positive production adjustment incentive for the individual producer. This provides that any dairy farmer who can demonstrate that he has reduced his marketings from the corresponding period of the prior year would receive a payment equal to at least the amount by which his milk price was reduced. For example, if it is determined that there would be nine percent excess milk and that a second tier price support reduction of $11.17 was necessary to fund the program, a farmer marketing 100 hundredweight of milk would have his milk check reduced by $100.53. (Nine hundredweight x $11.17) If, however, that farmer were to reduce his marketings by nine percent he could obtain a payment at least equal to the $100.53.

This gives the individual farmer the flexibility to determine how the program would best fit into his own operations. There is, however, a very specific incentive to reduce production and a recognition of such reductions.

There is, at present, an increased willingness on the part of dairy farmers to work within some type of national base plan or quota system. In the past, dairy farmers have been strongly opposed to such programs. Strong consideration was given such programs by the Federation. The decision not to incorporate a base or quota system in the program was conditioned largely by the adamant opposition of the administration to such plans and by the demonstrated desire of the Congress to avoid rigid supply control measures as operating elements of farm price stabilization programs.

The incentive provision is absolutely necessary as part of the overall effort to align milk supply with demand. It does, however, avoid the difficulties and objections encountered with a rigidly structured base or quota system.

As indicated, the Dairy Stabilization Program would be under the direction of a National Dairy Board. This board would be comprised of 15 dairy farmers or their representatives appointed by the President from nominations submitted by dairy farmers themselves. In addition, the Secretary of Agriculture would serve as a member of the Board.

The Board would have specific operational functions rather than being an advisory body. It would be the responsibility of the Board to:

+ Determine the proportion of the national milk supply to which the two levels of price support shall apply.
+ Determine producer responsibility for program funding and establish the second tier, lower level price support on milk excess to commercial market needs.
+ Manage and direct disposition of dairy products acquired through price support operations.

In carrying out its responsibilities with regard to disposition of dairy products, the Board would, to the extent practical, make use of existing channels of trade. Provision is made to provide up to five billion pounds milk equivalent of dairy products annually for use in the domestic food assistance programs of the Federal government. Authority is also provided for the Board to utilize available stocks to assist in meeting the needs of other food programs in this country and abroad.

In addition to the food assistance operations, authority is provided for the resale of products to the commercial trade for unrestricted use. Under such circumstances, the minimum resale price is specified as the higher of the current market price or 110 percent of the current CCC purchase price. This is the same as the current unrestricted sales policy of the CCC. Other general sales authority is provided the Board to assure the fullest possible use of available product, to realize potential returns on products in the inventory and to avoid waste and deterioration.

In addition, the Board would have authority to enter into agreements for the export of dairy products. This would include sales to foreign governments, agencies of foreign governments or international agencies as well as to individuals and private trading firms.

There has been a good deal of comment on the possibility that such operations could be regarded as a violation of U.S. agreements under the General Agreement on Tariffs and Trade. Such allegations have been of a general nature, however, with no specific barrier specified. The operations proposed for the Board would be little different than those conducted by the dairy industries of countries such as Canada and, to a degree, New Zealand. There would be no direct export subsidy provided by the government as is the case of the programs employed by the European Economic Community and a number of other European nations.

In this instance, dairy farmers would be assisting in the funding of the basic program. Any returns from export sales would be available to reduce the cost of the program to farmers.

ADMINISTRATION PROPOSAL

The Federation membership was deeply disappointed with the basic recommendations advanced by the Secretary of Agriculture on May 5. The Federation and others had devoted substantial time and effort toward the development of recommendations as originally requested by the Secretary. Despite this, the basic recommendations of the administration with regard to the price support program represent nothing more than a repetition of a request for unlimited discretion in the administration of the program.

Congress has correctly rejected such proposals in the past. Identical action is fully warranted in this case.

The unlimited discretion requested leaves the basic decision as to whether or not there will be an effective price support program with the Secretary of Agriculture. We know that Secretary Block, as a farmer himself, is aware of the needs of farmers for a degree of certainty in the planning of their operations and in the making of committments to production, many of which are of a long term nature. We are also aware that the Secretary is not the sole, too often not even the prime factor in making these decisions. Many others involved in the making of agricultural decisions are totally unaware or unconcerned with the impact they might have on the viability of the farm economy.

But even more basic to the issue is the critical point that the plan advanced by the Secretary will not work as well in the short term as the Dairy Stabilization Program. In the longer term, it will bring about the production adjustment sought, but only at great cost to the dairy industry and the economy in general.

The Secretary has indicated that the present $13.10 price support level will be maintained through December 31, 1982. This, the Secretary has indicated, will allow assessment of current trends and provide dairy farmers the opportunity over the next few months to make adjustments in production. It is his expressed hope that the support level next January 1 would not have to be set lower than $12.00 per hundredweight.

There has been a slowing in the rate of increase in milk production since January 1 of this year. It is still unclear, however, whether this is due to weather and other factors or is based on a change in the fundamentals which determine the overall level of milk production. But with his announcement that there will be a reduction in the price support level on January 1, the Secretary did make it clear to dairy farmers that one basic fundamental will change on that date.

To the extent that dairy farmers are realizing a net return at the present time, there will be strong incentive for them to continue milk production at the highest possible rate. Certainly, the time span involved is too short to provide for a basic increase in capacity. But having been told that prices will fall, dairy farmers will take the opportunity to use existing facilities and maintain present herd size to produce as much milk as possible over the next few months in order to maximize earnings.

This will, of course, increase government costs under the price support program. Another feature of the Secretary's course will also add to government costs. Knowing that CCC purchase prices for dairy products will be cut after the first of the year, processors, wholesalers and retailers will reduce their inventories of products to an absolute minimum at that time. This combination of actions will increase the CCC outlays during the balance of this year, increasing the pressures on the Secretary to make a price support reduction greater than he has indicated he hopes to do.

Experience with past reductions in the price support level indicates that such action does not immediately reduce program costs through production reduction. In April, 1954, Secretary of Agriculture Benson reduced the price support level from $3.74 to $3.15 per hundredweight (a cut of 15.8 percent). At that time, the action was taken to reduce milk production. Milk production actually increased over the next two years and then began a slow decline. In April 1962, Secretary of Agriculture Freeman reduced the price support level from $3.40 to $3.11 per hundredweight (a cut of 8.5 percent). Milk production rose in 1962, declined somewhat in 1963, and in 1964 rose to what was, up to that point, the all time record level before adjusting downward.

So the record is clear. Simply reducing the price support level from $13.10 to $12.00 (a cut of 8.4 percent) as Secretary Block says he hopes to do will not automatically yield the results sought. There has to be a better way.

Dairy farmers believe that there is.

We do find a good deal to support in the other initiatives announced by the Secretary. Action needs to be taken to expand utilization of dairy products held by the CCC. For the most part, the authorities exist to accomplish these moves at the present time. All that is needed is the will to use these powers. The proposed amendment to Section 416 of the Agriculture Act of 1949 will increase the Secretary's ability to utilize these products in a beneficial manner and has our wholehearted support.

The National Milk Producers Federation is anxious to work with the Secretary and the Congress in expanding use of these stocks. There is a need for them both in this country and around the world. As part of the Agriculture and Food Act of 1981, the Congress approved provisions authored by Senator Melcher mandating the availability of these commodities on a bonus basis to the child nutrition programs and making direct distribution to needy persons possible. We were in full support of these actions. While we recognize the need to bring production into line with market needs, we must also seek to use this essential food supply that is available in the best manner possible rather than simply allow it to reside in warehouses accumulating storage costs and risking deterioration.

CONCLUSION

Dairy farmers and their dairy cooperative marketing associations throughout the country reject without reservation the proposal for revision in the Dairy Price Support Program advanced by the administration. It will not accomplish the short term objectives. It will accomplish the goal of reduction of milk production in the longer term by economic attrition, an attrition that will hazard the stability of a major sector of the nation's agriculture and the assurance of supply that we have come to take for granted.

There is a better way. The combination of proposals presented in the National Dairy Products Promotion Program and the Dairy Stabilization Plan would move in concert to balance supply and demand. The one would be fully funded by dairy farmers themselves while the other would shift a major portion of the cost of farm price stabilization to the farmer. The Dairy Stabilization Program would give the individual farmer the opportunity to assess its impact on his own operation and plan accordingly. There is strong incentive for immediate reduction of production. Briefly stated, the program would:

+ Assure a continuing adequate supply of milk and dairy products to meet the needs of consumers.
+ Reduce government costs in Fiscal Year 1983 by an estimated $1.3 billion, responding to the administration and Congressional concerns regarding budget exposure.
+ Maintain the freedom of choice for individual dairy farmers to manage their own operations.
+ Result in an orderly adjustment of production to match milk supplies with market demand.

NATIONAL MILK PRODUCERS FEDERATION
DAIRY STABILIZATION PROGRAM
April 28, 1982

The present Dairy Price Support Program is under severe pressure because of high and prolonged government financial involvement. These pressures may result in modification of or limitations on the present program so as to make it impossible to achieve the objectives set forth in the law. For this reason, alternatives to the present program must be considered. This Dairy Stabilization Program is a viable alternative.

The Dairy Stabilization Program is a purchase type program similar to the present Dairy Price Support Program. The support level would be based on parity. Dairy products would be purchased by the Commodity Credit Corporation at prices which enable manufacturing plants to pay the support price for milk. The major differences between the present program and the Dairy Stabilization Program are: (1) A Dairy Board would be established to help administer the program and dispose of dairy products, (2) Dairy farmers would help finance the program, and (3) The Dairy Board would provide an incentive payment to encourage dairy farmers to reduce their marketings of milk.

Objectives

1. To stabilize milk and dairy product prices in the interests of farmers and consumers.
2. To assure consumers of adequate supplies at reasonable prices and farmers of prices necessary to maintain production capacity.
3. To create an incentive for an individual dairy farmer to voluntarily cut back on milk marketings during periods of excess supplies.
4. To provide dairy products for programs designed to improve nutrition and relieve hunger among children and the underprivileged within the United States and abroad.
5. To maintain an inventory of dairy products for use in relieving hunger under emergency circumstances, within the United States and abroad.
6. To develop and expand commercial foreign markets for milk and dairy products.

Enabling Legislation

The Agricultural Act of 1949 would be amended for a temporary period to authorize the Dairy Stabilization Program.

The legislation would provide for:

1. A specific level of support related to parity after the first year.
2. Dairy Board appointed by the President of the United States to share the responsibilities of administering the dairy program.
3. Partial dairy farmer financing through a two-tier support system during periods of unusual disparity between supply and demand for milk and dairy products.
4. A payment to any dairy farmer who can demonstrate a reduction in marketings during periods of two-tier support.

Price Support Level

The support price for FY 1983 would be set at $13.10 per hundredweight of milk containing 3.67 percent butterfat. In subsequent years the support price would be established to reflect the same level of parity that $13.10 will be at the beginning of FY 1983 ($13.10 will be 67-68 percent of the parity equivalent for manufacturing milk estimated for October 1, 1982).

The support price would be fixed at a level that would save farmers from a ruinous price drop. A fixed level of support related to parity is helpful to farmers in planning for the future. Dairy farmers believe in the parity concept and it has served them well for more than 30 years in maintaining a balance among dairying, other agriculture pursuits and the off-farm economy.

When milk supplies and demand are balanced, market forces would raise farm milk prices above the support price. During periods of excessive milk production, an assessment would be charged on a per hundredweight basis against a portion of a producer production which corresponds to the national surplus. The greater the surplus, the greater would be the assessment and the portion of milk to which it applies. The lower net price on this unneeded production would generate producer response and trigger a reduction in milk production. In addition, an incentive payment for reduced marketings would be made to encourage the elimination of excess production. As balance returned between supply and demand, farm milk prices would rise to the established support price.

Financing

The program would be financed by:

1. Government funds sufficient to purchase and manage up to the equivalent of 5.0 billion pounds of milk annually. An increase in government financial responsibility would be required to offset any Section 22 action which would allow the expansion of imports.
2. Producer financing sufficient to reimburse CCC for all dairy program costs in excess of the government's financial responsibility.
3. By funds realized from the sale of dairy products both domestically and abroad.

Government Responsibility

Some reasons why the government has responsibility for maintaining prices to producers are:

1. Price stability and assurance of adequate supply of milk and dairyproducts for consumers require production of some reserve supply at all times.
2. Imports of dairy products are allowed entry into the United States in the interests of foreign policy objecttives.
3. The government has long recognized the need for a healthy agricultural economy, including dairy, if the country is to enjoy prosperity.

Support of the dairy industry is in the public interest. The cost, within reasonable limits, should be born by government. It would be under the Dairy Stabilization Program. At the same time, the government would not be underwriting the program on an unlimited cost basis.

Federal support should be based on a volume obligation rather than a dollar obligation. The volume obligation initially should be equal to 5.0 billion poun equivalent (M.E.). In pursuit of international policy objectives the Federal government permits the entry of dairy products amounting to some 2.4 billion pounds M.E. These imports displace the market for domestically produced products. Any action which would expand imports should be offset by a like increase in the government obligation. Through its domestic and foreign nutrition programs, the government distributed a considerable volume of dairy products. Presently, such programs can reasonably use 2.6 billion pounds M.E. of dairy products yearly.

A volume obligation would better serve the public interest and the interests of dairymen. It would protect them from the effect of inflation on the program funding. A fixed dollar allocation would finance the purchase of less and less milk, and through this process require dairymen to finance a larger and larger share.

Producer Responsibility

Any short-fall of government funds would be provided by dairy farmers themselves. This would be necessary during periods when milk production exceeded the 5.0 billion pound reserve.

During these surplus periods a two-tier price support system would become effective. Milk determined necessary to meet commercial market needs would be supported at the farm at a higher level than milk in excess of those needs. For the marketing year which begins this October, the support level would be maintained at the present $13.10 for that portion of the milk supply necessary to meet commercial market needs. In succeeding years of surplus, the price support level on this portion of the milk supply would be at the level of parity--about 67 or 68 percent--which $13.10 will be this October 1.

A lower level of price support would be established for that portion of the milk supply deemed excess to the needs of the domestic commercial market during surplus periods. The lower level of support would relate to the cost of the dairy program in excess of the government's responsibility and would reflect expected proceeds from the sale of CCC owned dairy products. The difference between the two price tiers would be remitted to CCC by the first purchaser of milk from farmers and would provide the farmers share of financing the program.

Under the program, each farmer would participate in the sale of milk into the domestic commercial market to the same degree. Similarly, each farmer would be called upon to bear an equitable portion of the cost of excess production.

In periods when CCC purchases were projected not to exceed 5.0 billion pounds, M.E., that portion of the milk in excess of commercial needs would be supported at the same level as that portion deemed necessary to meet commercial needs unless it was necessary to recoupe program costs from prior periods.

Marketing Reduction Incentive Payment

Whenever the Dairy Stabilization Program is operating so as to collect assessments from dairy farmers to fund the program the Board shall have the authority to authorize a payment to any producer who can demonstrate that he has reduced his marketings from the level of the corresponding period of the prior fiscal year. A reduction in program costs will make the funds collected from dairy farmers available to use for these incentive payments.

Before any incentive payment is approved the Board shall require proof from a dairy farmer that such a reduction in marketings has taken place. Such a reduction must represent a net decrease in marketings and cannot be achieved through the transfer of animals from one production unit to another production unit which are both under the control of that same farmer or other such actions which would erroneously qualify a dairy farmer for payment.

The amount of payment which is due to a dairy farmer shall be determined by multiplying the decrease in marketings (certified in hundredweights) by a rate in dollars per hundredweight announced by the Dairy Board. This payment rate shall not be less than the rate assessed each dairy farmer for a surplus production. The rate shall be adjusted to avoid the accumulation of excess producer funds. Incentive payments shall be made on no less than a quarterly basis and may be made on a monthly basis where possible. If any incentive payment is made during a fiscal year, a yearend statement of marketings must be filed. Incentive payments made during the year shall be preliminary settlements. The final incentive payment will be made on the basis of the total year's marketings. If the Board determines that preliminary payments have resulted in an overpayment to a producer, the Board shall recover such overpayment.

The comparison period for determining marketing reductions shall be the corresponding period (month or quarter) of the prior fiscal year. However, if the two tier price support is in effect for a series of consecutive years a producer making a reduction in marketings in one year shall be given a credit for such reduction in succeeding years when determining eligibility for incentive payments. However, if a person who has made a reduction in marketings during the first year of program operation expands his production in the second year of operation above the level of marketings in the comparison year, there will be no consideration for the first year's reduction and that dairy farmer would not be eligible for a payment. Also, if the two-tier price support program were re-instituted after a period when it was not in effect, the comparison period would again be the prior fiscal year with no credits given for past reductions in marketings.

Dairy Board

A Dairy Board nominated by producer representatives and appointed by the President of the United States would be assigned major responsibilities for administering the program. The powers and duties would be:

1. Determine and review producer financial responsibility, based on estimates of production, consumption and CCC purchases and operations.
2. Determine and review the producer assessment percentage

which shall compare CCC purchases with producer marketings of milk.

3. Determine and review the producer assessment rate in dollars per hundredweight of marketings. This rate shall be adjusted as necessary to carry out its responsibilities without accumulation of excess funds.
4. Determine and review the marketing reduction incentive rate in dollars per hundredweight of marketings. This rate shall be adjusted as necessary so that it is no less than the assessment rate in effect for the period and eliminates any accumulation of funds at the end of the fiscal year.
5. Dispose of dairy products acquired by USDA to support the price of milk, including:

    a. Sales for unrestricted use.
    b. Transfers to government and other agencies for food program use.
    c. Sales to commercial exporters or payments to commercial exporters on products that otherwise would be purchased.
    d. Sales to foreign governments.
    e. Sales or donations for special uses, or to prevent spoilage.

6. Consult with the Secretary of Agriculture on the operations of the price support program.

The Secretary of Agriculture

The Secretary of Agriculture would perform all duties incident to the operation of the price support operation as has been customary, except those duties specifically assigned to the Dairy Board.

The Secretary of Agriculture would:

1. Serve as a member of the Dairy Board.
2. Provide the Dairy Board with all pertinent economic and financial data and information needed in establishing, adjusting or eliminating assessment rates and in carrying out other duties.
3. Collect assessments from all parties responsible for making payment to dairymen for milk, and directly from farmers who produce and market their own milk (producer-handlers).
4. Provide audit service to determine that all assessments have been properly made and transmitted to him.
5. Establish the terms and conditions under which USDA would purchase dairy products including grading standards, container specification, payment, and shipping instructions. Provide a grading service.
6. Buy dairy products through CCC.
7. Deliver, at the direction of the Dairy Board, dairy products in the form, to the place, and at the time specified.
8. Pay, at the direction of the Dairy Board, all obligations committed by the Dairy Board in carrying out its responsibilities.

NATIONAL MILK PRODUCERS FEDERATION
Dairy Stabilization Program:
Milk Supply, Utilization and Prices; CCC Purchases; and Program Costs

Item	Unit	FY 1982 Current Program	Dairy Stabilization Program		
			FY 1983	FY 1984	FY 1985
Percent of parity	Pct.	72.9	68	68	68
Support price (3.67%)	Dol./cwt.	13.10	13.10	13.95	15.04
Milk production	Bil. lb.	135.5	134.7	133.0	132.0
Farm Use	Bil. lb.	2.1	2.1	2.1	2.1
Marketing	Bil. lb.	133.4	132.6	130.9	129.9
Beginning commercial stocks	Bil. lb.	5.2	5.5	5.6	5.7
Imports	Bil. lb.	2.4	2.4	2.4	2.4
Commercial supply	Bil. lb.	141.0	140.5	138.9	138.0
Commercial use	Bil. lb.	121.0	123.0	124.8	126.5
Ending commercial stocks	Bil. lb.	5.5	5.6	5.7	5.7
Total utilization	Bil. lb.	126.5	128.6	130.5	132.2
CCC net removals	Bil. lb.	14.5	11.9 (9.0%)	8.4 (6.4%)	5.8 (4.5%)
CCC net purchase cost	Mil. dol.	2584	2121	1593	1186
Federal responsibility (5 bil. lbs. M.E.)	Mil. dol.	--	792	839	898
Industry responsibility	Mil. dol.	--	1329	754	288
Manufacturing milk price	Dol./cwt.	12.70	12.70	13.70	14.95
Charge on excess	Dol./cwt.	--	11.17	8.98	4.97
Farm value of excess	Dol./cwt.	--	1.53	4.72	9.98

Assumptions for Dairy Stabilization Program Estimates

1. Support price assumes an increase in the parity index of 5 percent in FY 82, 5.5 percent in FY 83 and 6.0 percent in FY 84.

2. Production. Given current conditions in the general economy and other sectors of agriculture, milk production would remain unchanged from previous year levels at a farm milk price level of 70 percent of parity in FY 84 and 85.

3. Consumption. With prices virtually unchanged relative to parity, consumption of fluid milk and dairy products will increase slightly more than population.

4. Milk production: For FY 83 based on elasticity of 0.15 on the farm milk price but change not reflected for 6 months because of unfavorable general economic conditions and lack of the agricultural alternatives. The changing structure of the dairy industry (a greater proportion of well-financed, well-managed commercial operations) will retard production adjustment which in the past have occurred as marginal farmers were forced out of business. Based on 0.15 for FY 84 and 85.

   Assumes no impact from marketing reduction incentive payment.

5. CCC net removals are only net of sales back to the trade for unrestricted use.

6. Cost of purchasing 100 pounds of milk in FY 83

   (Support price X 1.36) = Purchase cost per cwt. M.E.
   ($13.10 X 1.36) = $17.82
   ($13.95 X 1.36) = $18.97
   ($15.04 X 1.36) = $20.45

   Factor 136 percent includes administrative costs and extra powder purchase costs.

7. Government responsibility 5.0 bil. lbs. M.E. (2.4 bil. lbs. M.E. of imports plus 2.6 bil. lbs. required for nutrition assistance programs)

   In dollars:

   Support price + average make allowance + 10 percent administration

   ($13.10 + $1.30) X 1.10 = $15.84/cwt. X 5 bil. lbs. = $792 mil.
   ($13.95 + $1.30) X 1.10 = $16.78/cwt. X 5 bil. lbs. = $839 mil.
   ($15.04 + $1.30) X 1.10 = $17.97/cwt. X 5 bil. lbs. = $898 mil.

8. Charge on Excess equal to Net Industry Responsibility divided by CCC net removals. Assumes no sales of CCC products.

TESTIMONY OF DON SLINDEN FOR PRESENTATION TO THE SENATE SUBCOMMITTEE ON AGRICULTURAL PRODUCTION, MARKET AND STABILIZATION OF PRICES

I am a dairy farmer from Grove City, Minnesota. I am a member of the Atwater Creamery Association and a director of First District Association, another dairy cooperative. I am also on the Board of Directors of Land O'Lakes where I serve as second vice chairman. My testimony is given on behalf of the dairy members of all these cooperatives. In addition to my other positions I am on the Board of Directors of the National Milk Producers Federation.

My testimony will be limited to only one or two specific items. However, it should be made clear that the dairy farmers I represent support the proposals brought forward by the National Milk Producers Federation.

One point that should be emphasized in the proposal of National Milk Producers is the return to the parity index. Some type of economic mover is essential to maintain adequate dairy farmer income and to assure a continuing adequate supply of milk. Farmers are faced with volatile costs. We cannot be expected to maintain productive capacity unless we are given some assurance that prices we receive will somewhat reflect the costs we face. Not only cost of production, but normal living costs. You gentlemen must recognize that we are consumers as well as businessmen. The parity index has proven to be a satisfactory and acceptable mover for 30 years. It should not be abandoned because of what has happened in the last two or three years.

Another point that should be made. Mr. Block indicated in his statement of May 5 that he did not expect the price support level to be set below $12.00 as of January 1, 1983. I, as a dairy farmer, do not know if I can plan my productivity for the coming years based on that estimate. There is no guarantee that that will be the actual price support level if he is given the authority he requests. And, if he does follow through, what changes will occur in milk production. Many dairy farmers in our area have indicated they will increase cow numbers at that price to be able to meet their obligations. To my knowledge, no one really knows for sure what price level will achieve the desired results and what the long term ramifications of such a price level will be. I firmly believe that a positive incentive to reduce production such as that proposed by the National Milk Producers Federation is essential for the economic well being of dairy farmers and a continuing adequate supply of milk for consumers.

Thank you for this opportunity to discuss my concerns.

STATEMENT OF W. EUGENE FLYNN, VICE PRESIDENT MID-AMERICA DAIRYMEN, INC.

I am W. Eugene Flynn, a dairy farmer from Blair, Nebraska. In addition to my responsibilities in the operation of my farm I am Vice President of Mid-America Dairymen, Inc., a dairy cooperative marketing association headquartered at Springfield, Missouri. I also serve on the Boards of Directors of National Milk Producers Federation and the United Dairy Industry Association.

American agriculture faces perhaps the most serious economic situation it has ever confronted. The drastic decline in net farm income over the past three years has strained the resources of many farmers to the point of exhaustion. I am afraid that some have viewed the dairy industry as isolated from this situation. This is far from true as we are finding right now.

The lack of reasonable alternatives in other sectors of agriculture has caused farmers to turn to milk production. It has caused existing dairy farmers to expand their dairy operations while curtailing other enterprises on the farm.

This has resulted in increased milk production--the past two years have brought record levels of milk production in the United States.

The problems faced by other segments of agriculture are now very much apparent in dairying as pressures mount to make changes in the Dairy Price Support Program so as to reduce program costs.

As a dairy farmer, I am fully aware of the need to restrain Federal spending, to reduce the Federal deficit, to lower interest rates. I know better than most, the impact of inflation has had on our economy. I also know the need for an effective price stabilizing mechanism such as the price support program has provided for the dairy industry for the past thirty years.

It is in recognition of these needs that farmers across the country have worked together over the past months to develop the basic concepts incorporated in the National Dairy Products Promotion Program and the Dairy Stabilization Plan now pending before your Committee. In combination, this legislation would permit dairy farmers to work together and with the government to ease the milk supply-demand imbalance we face. At the same time, the Federal cost of the Dairy Price Support Program would be limited.

There has been much debate and struggle here in the Congress over budget issues the past two years. The question of controlling Federal spending has been the Number One issue before you. I am not aware of a single instance, however, in which any segment of the economy has come to the Congress and offered a program that would reduce Federal budget exposure by more than $1 billion. This is what dairy farmers are doing today.

The major point of discussion among the dairy farmer owners of Mid-America Dairymen this past winter and spring has been the need to develop programs that will effectively address the problems now facing the dairy industry. The National Dairy Products Promotion Program and the Dairy Stabilization Plan are seen as the means to address these issues in a responsible and effective manner.

Why should I, as a dairy farmer, support legislation that will reduce my gross income? First, I believe that I am producing a high quality, essential food for the markets of the nation. One of the things that we can do, must do, is to assure the maintenance and growth of these markets. Product promotion is an effective tool for farmers. That has been well established. The National

Dairy Products Promotion Program will broaden and intensify current efforts in this area.

Milk and dairy products are an essential element of the American diet. I am concerned, however, that we tend to take this for granted and too little attention is paid to the need to bring these basic facts to the attention of the public.

Data provided by the U.S. Department of Agriculture indicate that in 1978, dairy foods, excluding butter, provided only 11 percent of the calories consumed by U.S. civilians. But along with this these products provided 75 percent of the calcium intake, 39 percent of the riboflavin, 35 percent of the phosphorus, 22 percent of the protein, 22 percent of the magnesium, 20 percent of the vitamin B_{12}, 13 percent of the vitamin A value, 10 percent of the vitamin B_6 and 9 percent of the thiamin.

Nutritional deficiencies know no age or income boundaries. Nutritional studies have revealed significant dietary shortcomings at every age and income level. The need for the public to be aware of the nutritional value of the foods available becomes increasingly important as the variety of foods available increase. Some of the products consumed in lieu of milk, for example, have absolutely no nutritive value.

The marked improvement in nutrition and the accompanying rise in school performance has been the major factor in making the school lunch program one of the best efforts undertaken by the Federal government. The Women's, Infant's and Children's Program has improved nutrition for expectant mothers and infant children.

The value of promotion programs of this type is not just in the effort to sell more product but in the information they provide regarding the nutritional value of the foods available.

The Dairy Price Support Program is absolutely essential as a means of providing the basic price assurance needed by dairy farmers. Without it, the great improvements in productivity we have seen in the industry in recent years would not have been possible. We need to maintain the basic structure and effectiveness of the program while bringing program costs under control.

The Dairy Stabilization Plan does just that. It immediately limits government costs. At the same time, it provides an incentive for the individual dairyman to make a reduction in production. He is not forced to do this. There is no limitation on marketing. Each farmer has the opportunity to decide what is best for him. By focusing on that portion of the milk supply that is excess to domestic commercial market needs, the program clearly identifies the problem and deals with it in a direct manner.

As an individual farmer, I would be able to maintain a reasonable price for my production by making a reduction in output. When I do this, I will avoid the direct costs of producing that extra milk. A reduction in the price support as proposed by Secretary Block will simply mean a lower price for all the milk I produce with no way of adjusting to the situation. Both methods will bring about the needed production adjustment. Under the Stabilization Plan, the dairy farmer has the opportunity, the incentive, to do so in a manner that will more nearly meet his needs as a farmer. Under the Secretary's plan, it will be accomplished through attrition as dairy farmers use up the equity they have, exhaust their assets and finally are forced out of business.

I feel the choice is clear and simple. From the standpoint of the individual farmer, the economic well being of our rural communities, and the continued capability of meeting the needs of consumers, the combination of self-help efforts contained in the promotion program and the stabilization plan should be approved.

STATEMENT OF ROBERT GAEBE, NEW SALEM, N. DAK.

My name is Robert Gaebe. I am from New Salem, North Dakota and I am a dairyman. I milk 75 cows in addition to farming 1,400 acres.

I am appearing today on my behalf and as a representative of the dairy farmer members of Land O'Lakes, Inc. I am chairman of the resolutions committee of Land O'Lakes.

The members of Land O'Lakes appreciate the opportunity to present testimony to the subcommittee as we have been concerned for some time about the problem of surplus milk production. We have been working since early 1980, through the National Milk Producers Federation, to attempt to make changes to the dairy price support program so that it would be more responsive to supply/demand conditions.

A number of meetings were held with Land O'Lakes dairy farmer members the first week of January of this year to discuss a proposed "self-help" program for dairy farmers. Feedback from those meetings indicated that some type of supply management would be necessary to avoid further expansion of milk production. A number of Land O'Lakes members indicated that simply lowering milk prices would force them to increase their herd size because prices for other farm products are so depressed that alternative farming enterprises are not feasible. The Board of Directors of National Milk Producers responded to these and other dairy farmers concerns by including an incentive to reduce production in their plan. Land O'Lakes members have reacted favorably to this plan at our annual meeting (when a resolution supporting the concept was passed unanimously) and at information meetings held since our annual meeting. We strongly urge your support of legislation proposed by Senator Boschwitz.

We also want to express support for a number of proposals made by Secretary Block on May 5. His proposals to expand distribution of surplus dairy commodities both domestically and in foreign markets are long overdue in our opinion. We support any legislation which will encourage the development of foreign markets for U.S. dairy products. We also support other features of his plan, except for giving him total discretionary authority to set the support price for milk at whatever level he, or someone else in the Administration deems appropriate.

Such a proposal provides no price assurance whatsoever for dairy farmers. Nor does it provide for a continuing adequate supply of milk for consumers. Dairy farmers need better information than what has been provided in order to make plans for the coming years.

It is our concern that the $12.00 level predicted by Mr. Block will not cause a change in the continuing increase in milk production. His proposal would mean a slow, painful death for many dairy farm business with all dairy farmers also being economically harmed in the process. The National Milk Producers plan will provide a much less painful and more orderly process of reducing milk production. The National Milk Producers plan will also be much less painful for taxpayers and the national budget. Land O'Lakes members are extremely supportive of efforts to reduce both the budget deficit and high interest rates. Reducing the price support level to $12.00 will have a much smaller effect on CCC expenditures than the plan advanced by the National Milk Producers Federation.

One other item that should be discussed is the national dairy products promotion program which is part of the package proposed by the National Milk Producers. We support this legislation as well. Our members have made it very clear, however, that they will not support such a program if there is a provision which allows dairy farmers to get a refund of their contributions. All dairy farmers must participate because all dairy farmers will benefit from this program. We firmly believe that additional promotion will result in additional consumption of dairy products.

In conclusion I urge each of you to support the legislation which has been or soon will be introduced by Senator Boschwitz on these matters.

Thank you for your attention and the opportunity to be heard on this matter.

STATEMENT OF MYRON ERDMAN, ROUTE 1, BOX 85, CHENOA, ILLINOIS 61726

I am Myron Erdman, a dairy farmer from Chenoa, Illinois. I am a member of Associated Milk Producers, Inc., a dairy cooperative marketing association owned by dairy farmers in twenty states from the Canadian border to the Gulf. As a member of the Board of Directors of AMPI, I have had the opportunity to participate in discussions regarding the need to maintain a strong, effective price support mechanism for the dairy industry. At the same time, I recognize that steps must be taken to control the costs of the program.

I fully support the combination of efforts that would be undertaken through the authority provided by the National Dairy Products Promotion Program and the Dairy Stabilization Program.

Dairying is a national industry. It is the second largest source of cash farm income in this country. It is a major source of farm income in every state. Thus, what is done here will have a major impact on the farm economy throughout the country.

Some have suggested that the current problems under the price support program are of a regional nature and should be addressed as such. But we are dealing with a national milk supply. Improvements in the quality of milk on the farm, advances in transportation technology and other changes in the industry mean that we no longer have local or regional markets even for fluid milk.

I doubt if any dairy farmer will tell you that the prospect of an income reduction is welcome or that it will be easy. We all have investment in production facilities, in land, in livestock that must be covered if we are to remain in business. Our production costs continue to increase. The prospect of taking a reduced price for a portion of our production or of putting up an additional five cents for product promotion will not be an easy matter.

But dairying is a long-term enterprise and I feel these things are necessary for the long-term stability of the industry.

The Dairy Stabilization Program will give me an opportunity to adjust my operation to meet the needs of the market and to meet the demands I face on my income. It would maintain the needed market stability and price assurance absolutely necessary to the dairy farmer. Frankly, the plan put forward by the administration provides no assurance whatsoever.

Those of us from Illinois know what agriculture needs. I have confidence in Secretary Block. But I am deeply concerned that his judgements would not be the final word in this decision-making. Pressures from the Office of Management and Budget, from the State Department or elsewhere could easily bring about the elimination of the price support program as a meaningful price stabilization operation.

As I understand, the administration has proposed amending the price support law simply to require the Secretary of Agriculture to set a price support level that will assure the production of an adequate supply of milk. That may seem clear enough, but I recall that nine years ago milk production was falling rapidly. At the same time, the old Cost of Living Council was riding high and pressing every agency to avoid any action that might increase prices in any manner.

As a result, the Secretary of Agriculture announced in March 1973 that he was setting the dairy price support level at the minimum allowed--75 percent of parity--stating that this would assure an adequate supply of milk. But just in case it didn't, the same USDA announcement expanded cheese imports by 50 percent. Similar import expansions were made over the next year until the cumulative effect broke the farm price for milk. Farm prices fell by more than 20 percent during the spring of 1974.

This type of uncertainty is just not acceptable to the dairy farmer.

It is to avoid this that dairy farmers are willing to assume a major portion of the cost of the price support program through a two-tier pricing system. The program would accomplish what the government seeks. It would control government costs. It would maintain the production capacity we need to meet our market needs. It would maintain an effective price stabilization program.

On the other side of the market, there needs to be an increased concentration of effort to expand markets for dairy products. Secretary Block has stated that USDA will undertake work in this direction through product development and other means.

The National Dairy Products Promotion Program would provide an additional needed tool for the industry to use in this effort. We have had substantial experience in the promotion of dairy products over the years although the bulk of that work has been directed toward fluid milk. The "Slice of Life" cheese promotion campaigns conducted by the industry the past two years have demonstrated that such efforts do work for manufactured dairy products.

The promotion program is not a new or novel idea. It would provide the basis for an orderly, systematic program that would serve the needs and interests of all dairy farmers.

As a farmer, I have to be concerned with the marketing of my production and the markets for it. This is why I am active in the efforts of my cooperative. This is how I seek to improve the marketing of my product. Through increased promotion efforts I can seek to maintain and expand the markets for my product as well.

A major problem confronting the dairy industry today are the imitation dairy products being presented the consumer as "nutritionally equivalent" to natural dairy products. This so-called nutritional equivalency is not based on scientific fact. Rather, it stems from these products meeting nutrient content standards set on a narrow, arbitrary basis by the Food and Drug Administration.

In 1980, imitation cheese products alone claimed five percent of the cheese market in the United States. Much of this was sold as an ingredient in prepared foods such as frozen pizza where the consumer is given little, if any, notice of its use.

A primary thrust of dairy product promotion efforts must be to make information available to the consumer of the value of natural dairy products.

I fully support the provisions of the promotion bill designed to allow cooperatives vote on behalf of their membership in the referendum required under the promotion program. Cooperatives are membership organizations. They are owned by and operated for the benefit of the farmers whose milk they are marketing.

As a member of my cooperative's Board of Directors, I have a very specific and direct responsibility to the members to be aware of their concerns and to represent those points during Board considerations. The decision by any cooperative to avail itself of this authority in the first place and, secondly, how the vote would be cast, would be a decision reached, not by management but by the Board acting on behalf of their fellow producers.

Of course, the final safeguard in this respect is the requirement that the membership be informed of the vote and provided an opportunity to cast an individual ballot.

Overall, the National Dairy Products Promotion Program provides a balanced approach to meeting needs in this area.

STATEMENT OF MR. WALTER A. MARTZ
8619 Yellow Springs Road
Frederick, Maryland 21701

I am Walter A. Martz, a dairy farmer from Frederick, Maryland. I am President of Maryland and Virginia Milk Producers Association, a dairy cooperative marketing association with membership in Maryland, Virginia, West Virginia and Pennsylvania. I also serve on the Board of Directors of the National Milk Producers Federation and am Chairman of the Federation Committee that has addressed itself to development of means of dealing with the current imbalance of milk production in relation to demand.

In this regard, I wholeheartedly endorse the concepts set forth in the Dairy Stabilization Program before your Committee.

Dairy farmers are aware of the need to restore the balance between supply and demand. We are also fully aware of the need to maintain an effective price stablization program. The Dairy Price Support Program has accomplished this need effectively since its initiation as part of the Agricultural Act of 1949. It remains an effective program. I do not feel that current problems should be viewed as a malfunctioning of the basic operating mechanisms of the price support program. Neither do they signal the need for a total revamping of the program.

The Dairy Stabilization Program would, however, shift a major portion of the cost of price support operations to dairy farmers. In doing so it effectively and immediately relieves the budget exposure of the Commodity Credit Corporation. This is the first criteria for program changes that Secretary of Agriculture Block has set forth. In fact, Secretary Block, appearing before the Board of Directors of National Milk Producers Federation on April 27 stated that this program would bring program costs under control more quickly and more effectively than the expedient of simply reducing the price support level.

For the past two weeks, the newspapers and radio and television newscasts have been filled with accounts of the work of the Congress in fashioning the budget for Fiscal Year 1983. The problems of reducing the Federal deficit are immense. There are no easy answers. But in the case of the Dairy Price Support Program, we have a situation where the industry itself is willing to accept a major portion of the cost burden of a government program. This is a major departure from price stabilization programs of the past. We feel it is necessary both to maintain the basic program and to bring about the needed production adjustment.

Frankly, it is oversimplistic to approach the problem on the basis that theprice of milk is too high. The fact is that milk production has offered farmers a relatively better return than other agricultural enterprises. Unfortunately for all of agriculture, this has been true because of depressed prices for other commodities. Ideally, the answer would be to act to improve prices for other commodities. We hope this can and will be done. But the answer certainly is not to reduce the economic level of dairying to the rather grim situation faced by producers of other products.

This is what we would hope to avoid with the Dairy Stabilization Program. To the extent that farmers continued to produce in excess of market needs, they would bear a portion of the program's costs. The legislation would tell the dairy farmer that the Federal government will put a specific amount of money into the price support program and no more. Any cost beyond that level will be borne by the farmers themselves. The program advanced by the administration will not do this. It will, over time, bring about the needed adjustment. But that will be accomplished only as dairy farmers are driven from the business. There is no incentive for the individual farmer to make any production adjustment. The adjustment will come only if individual farmers find that their operations are no longer economically viable.

By offering the individual dairy farmer the opportunity to adjust his production and thereby be relieved of the lower price for a portion of his milk, the program would focus its impact on the problem--the production of milk that is excess to market needs. The purpose of the price support program is, after all, assurance of the production of an adequate supply of milk. By focusing the effect of program changes on that portion of the total milk supply that is excess, the needed adjustment can and will be made relatively quickly. At the same time the individual farmer is left with the flexibility to determine how program changes will effect his operations.

To effectively address the present problem, we must approach it on a national basis. I am aware that some will argue that their region has not contributed to the current expansion of milk production or that there are special characteristics of the dairy industry in their region that make it necessary to exempt them from the impact of program changes.

But the dairy industry is a national industry. The milk supply is a national milk supply. Advances in technology and improvements in transportation have extended the boundaries of even our fluid milk markets to the point where no market is isolated from available supplies in other regions. Perhaps more basic to the issue, however, is the recognition of the reality that the Congress in addressing this issue must deal with it on a national basis.

The Dairy Stabilization Program avoids the problems that would be associated with a rigid base or quota system. There is a greater willingness on the part of dairy farmers today to accept such a program than there has been in the past. However, the adamant opposition of the administration toward such programs and the concern the Congress has demonstrated toward them has led us to avoid making such provisions a part of the operating mechanism of the program. Thus, the program would not limit entry into dairying, it would not tend to increase milk production costs through a capitalization of quota costs.

Secretary of Agriculture Block has raised some questions regarding the problems of administering the program and the authority that would be assigned to the Dairy Board. Program administration would not require the creation of new bureaucracies. The administrative structure is already in place either in the form of the State and County ASCS Committees which now administer other farm programs through the Milk Market Order Administrators who direct operations of Federal Milk Market Orders, or their counterparts who direct the operation of State milk stabilization programs where they are in effect. These offices and facilities can be used to the extent they are needed. The needed information with regard to production by individual farmers is already largely available through the market administrators or through the records of cooperative marketing associations.

The Dairy Board would be an operating authority. It would have the basic powers with respect to the operations of the program, particularly with regard to disposition of the products removed from the market to maintain price levels. We think this is highly important. Secretary Block, in announcing the administration's program earlier this month, set forth a number of new efforts the Department of Agriculure would be undertaking as part of its more aggressive disposition program. For the most part, however, these

these efforts have been available to the Department all the time. As part of last year's farm bill, the Congress included a specific directive to the Secretary to act to dispose of CCC dairy product inventories so as to bring program costs in line with budget estimates. Nothing has been done to bring that about. We cannot be certain that anything will be done to fulfill the pledges of expanded disposition.

We realize this is not an easy task. There are restraints that must be recognized. There is not an unlimited market for these products. But we must begin to utilize the opportunities that do exist.

This program does achieve the basic goals set forth by the Congress and the Secretary of Agriculture. It provides the basis for continued assurance of an adequate supply of milk. It would immediately limit the government cost of the program to an identifiable amount. It would bring about the production adjustment needed to restore a supply-demand balance within the industry. It would give the individual dairy farmer the flexibility needed to tailor his own operations while encouraging production adjustments.

This program, in combination with the National Dairy Products Program, represents a comprehensive industry effort at self-help. Both of these bills merit your support and approval.

STATEMENT OF ELWOOD KIRKPATRICK, P. O. BOX 5087, SOUTHFIELD, MICHIGAN 48037

I am Elwood Kirkpatrick, a Michigan dairy farmer. I am also President of Michigan Milk Producers Association, a dairy cooperative marketing association owned by dairy farmers throughout Michigan. In addition, I serve on the Board of Directors and the Executive Committee of the National Milk Producers Federation.

I appreciate this opportunity to comment on the National Dairy Products Promotion and Dairy Stabilization Program legislation pending before this Committee. In combination, these proposals represent a balanced, responsible approach to problems confronting the dairy industry. More than this, they have been developed by dairy farmers from throughout the country and provide a responsible means of meeting their needs. Both of these measures warrant your support and approval.

The dairy farmers of Michigan recognize the need to curtail milk production so as to restore a balance between supply and demand. We have been aware of this for some time and the statements of Secretary of Agriculture Block over this past winter have brought the urgent nature of the problem home to us very forcefully. We are disappointed, however, that the Secretary has chosen to disregard the basic recommendations of dairy farmers for dealing with the issue.

A brief comparison of the major features of the Dairy Stabilization Program and the proposal put forward by the administration will serve to highlight the vast differences which exist.

On the critical issue of controlling government costs of the Dairy Price Support Program, the administration estimates costs at $1.2 billion next year. We feel this is quite optimistic and if the production adjustment required to reach that level does not take place, costs would be higher. There is no limit to the cost level. Under the Dairy Stabilization Program, costs would be fixed at a known level. For next year this would be $792 million, the cost to CCC for removing the equivalent of five billion pounds of milk from the market. This would be an absolute limit on government costs.

On the question of bringing about the necessary production adjustment, the administration plan provides individual dairy farmers absolutely no incentive to cut back. It would secure the reduction over the long term through the process of attrition as farmers exhaust their assets and leave dairying entirely. The Dairy Stabilization Program provides the individual farmer a very strong incentive to reduce production by allowing him to avoid the lower level price on milk that is in excess of commercial market needs.

The price support program has always operated on the basis of providing farmers a minimum degree of price assurance to secure the production of an adequate supply of milk. The administration plan would totally remove the assurance that is necessary. If the Secretary had total discretion, as requested, in setting the support level, there would be no assurance. This discretion would, in fact, make it discretionary with the Secretary as to whether or not an effective price support would be in operation. The Dairy Stabilization Program will provide the needed level of price assurance to dairy farmers. It does this through maintaining the price support level at the percentage of parity that the present $13.10 price support level represents on October 1, 1982. Right now, we estimate this to be about 68 percent of parity. Continuation of the parity concept is also vitally important as it does provide a known and trusted means of adjusting the price support level.

On each of these basic points, the Dairy Stabilization Program is clearly superior. It would effectively and immediately control government costs. It would bring about the needed production adjustment more quickly and with less economic disruption in the industry. It would be more effective in maintaining the needed level of milk production by providing the necessary price assurance farmers require.

Given these obvious advantages, there is little real doubt as to which approach is superior whether we look at this from the standpoint of the government, the consumer, or the farmer.

The National Dairy Products Promotion Program would provide dairy farmers the necessary authority to develop an effective program of market promotion for manufactured dairy products. This is something that needs to be done and needs to be done quickly. There is solid evidence, based on research by USDA, by our colleges and universities and by private marketing experts, that such programs can be effective in maintaining and increasing product sales. The results of this research have been borne out by the experience gained in the limited promotion work done through special programs to date.

An adequately funded program supported by all dairy farmers across the nation would provide the industry with a tool that could be highly effective in relieving pressures on the Dairy Price Support Program through expansion of consumption of dairy products.

As indicated, these two programs would have the complimentary effect of working together to restore the dairy industry to the necessary balance. The combination of production adjustments on a reasoned basis geared to the needs of the individual farmer and expansion of markets for dairy products is the best answer for all interests involved.

STATEMENT OF JAMES P. CAMERLO, FIRST VICE PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION

I am James P. Camerlo, a dairy farmer from Florence, Colorado. I am First Vice President of the National Milk Producers Federation and also serve as President of Mountain Empire Dairymen's Association, a dairy cooperative marketing association headquartered in Thornton, Colorado and owned and operated by dairy farmers from Colorado, Wyoming, Idaho and Nebraska.

I would like to direct my comments today to the National Dairy Products Promotion Program which is pending before the Committee. This program is an integral part of the comprehensive effort developed by dairy farmers throughout the nation aimed at dealing with current problems confronting the dairy industry. Mr. Norman Barker, President of National Milk Producers Federation will address the proposed amendments to the Dairy Price Support Program in detail. I would like to associate myself with his testimony. I am in full accord with what he has to say.

The National Milk Producers Federation is a national farm commodity organization representing dairy farmers and the dairy cooperative marketing associations they own and operate throughout the nation. The vast bulk of the nation's milk supply is marketed by farmers through their dairy cooperatives. These cooperatives represent the effort of the individual farmer to provide himself with effective representation in the marketing of his production and to assure a market at reasonable prices for his product.

Dairy farmers have had substantial experience in the operation of dairy product promotion programs. Such efforts have demonstrated positive effects in maintaining and expanding consumption of milk and dairy products. At the present time, however, the bulk of existing effort is directed toward fluid milk products. The concept set forth in the National Dairy Products Promotion Program will provide a program aimed primarily at manufactured dairy products. The program is outlined in some detail in the attached concept paper which I ask be included in the record of the hearing as part of my prepared testimony.

NEED FOR THE PROGRAM

Much has been said of the problems being experienced with the growing cost of the Dairy Price Support Program. Most of this discussion has centered on the fact that milk production has expanded in the past few years, resulting in increased Commodity Credit Corporation dairy product purchases. There is another side to that issue. This involves the decline in milk consumption that has taken place in recent years. According to the most recent estimates by the U.S. Department of Agriculture, milk consumption per capita stabilized and showed some increase during the early 1970's following a substantial decline during the 1950's and 1960's. The experience of the early 1970's was, we feel, the result of increased and more effective product promotion programs.

But during the past two years, we have again experienced a decline in per capita consumption. From 548 pounds milk equivalent (fat-solids basis) per capita consumption in 1979, per capita consumption fell to 540 pounds in 1980. This represents a total decrease in milk consumption in the nation of almost 2 million pounds.

Milk Consumption Per Capita, U.S.
Milk equivalent, Fat-solids basis

Year	-pounds-
1969	569
1970	561
1971	556
1972	558
1973	551
1974	539
1975	540
1976	540
1977	542
1978	545
1979	548
1980	542
1981	540

Source: DAIRY, OUTLOOK AND SITUATION,
USDA, ERS, DS-388, March 1982

The increase in consumption of manufactured dairy products has been a major factor in maintaining and increasing milk consumption in recent years. This is particularly true of cheese. In 1970, per capita cheese consumption was 11.5 pounds. By 1979 this had increased to 17 pounds. But in 1980, there was a slight decline in cheese consumption. There was a moderate increase in consumption last year, at least in part due to specially targeted product promotion programs conducted by the dairy industry during late 1980 and again in 1981.

When we look at the food marketing picture today, we witness a highly sophisticated industry where thousands of products compete for the attention and the budget of the consumer. Hundreds of millions of dollars are spent on the promotion of the products that stock the shelves of the nation's food stores. For too long, we in agriculture have assumed that because we produce a product that is pure and wholesome and one which provides an unmatched nutritional value that it has an automatic acceptance by the consumer. We have learned, we are continuing to learn, that this is not the case.

The dairy industry is witnessing the development of a new generation of imitation dairy products that compete for the consumer dollar. Many of these products are presented as "nutritionally equivalent" to genuine dairy products, a claim not supported by scientific fact but allowed by mandate of the Food and Drug Administration.

It is estimated that 200 million pounds of imitation cheese products were produced in the United States in 1980. This represents over five percent of the total cheese market. The primary feedstock for these products is casein. I realize that neither the U.S. International Trade Commission nor the administration feels that such inroads into a major market represents material interference, but for the U.S. dairy farmer it is most significant.

It is for the purpose of addressing these issues that dairy farmers have joined together in support of the National Dairy Products Promotion Program. The legislation before the Committee would authorize the development of a national promotion program initially aimed totally at manufactured dairy products. There is solid evidence that these efforts are successful. Such an effort is an essential part of any overall program to address current problems facing the dairy industry.

NATIONAL DAIRY PRODUCTS PROMOTION PROGRAM

The legislation before the Committee is similar in most respects to that approved for other commodities in recent years and essentially identical to the programs supported by dairy farmers in several states. It authorizes the development of a national producer-funded program for the promotion of dairy products. The development of the program would be under the supervision of the Secretary of Agriculture. Final approval of any such program would be gained only through a producer referendum. The program itself would be directed by a Board of Directors composed of dairy farmers, however budgets for program operations and actual project plans would be subject to review and approval by the Secretary.

A number of concerns have been raised in connnection with the proposed legislation.

The program provides for a five-cent per hundredweight mandatory assessment on all milk marketed. Some contend that the full-support nature of the assessment makes it a tax rather than a contribution toward an industry self-help program. From a legislative standpoint, several points must be understood. First, the Congress is not being asked to approve a check-off program. The question before this Committee and the Congress is whether or not to give dairy farmers the opportunity to develop the proposed promotion program under the supervision of the Secretary of Agriculture. To the extent that the assessment might be considered a tax, it would be a self-imposed tax on the industry as the program could not become effective unless approved by dairy farmers voting either as individuals or through their cooperative marketing associations in a national referendum.

Further, the proceeds of the assessment would be used to further efforts at market expansion for all dairy farmers. This point is critical. A major weakness of voluntary programs has been that those participating in the program carry the entire burden for the industry. All farmers would benefit to an equal degree from the program. To this extent, each should be expected to share in program costs.

For many dairy farmers, the costs of this program will be in addition to substantial contributions they are already making to promotion programs. In my own case, I already provide 16 cents per hundredweight to state, regional and national promotion programs. This additional money will compliment these existing programs and enable the dairy industry to more fully inform the public of the value of dairy products. In my own cooperative, there is virtually unanimous support for this proposal. It has been discussed in detail during membership meetings this past winter and spring and Mountain Empire Dairymen are not only supportive of the concept, they are enthusiastic in their support.

There is precedent for a mandatory program of product promotion in the dairy industry. As noted in the table attached to my testimony, a number of major dairy states do have such a program in effect at the present time.

In addition to these programs, many of the cooperative marketing associations maintain their own advertising and promotion programs. In many of these instances a portion of the funds are used for promotion of cooperative brand advertising with the balance being devoted to generic promotion. In total, over one-half of the milk supply in 1981 was included under a full-support program either under a state or cooperative program.

It has been suggested that the referendum provisions of the measure be amended to remove the authority for cooperative marketing associations to vote on behalf of their members. Frankly, the provisions now in the bill will assure broader participation in the producer referendum and more fully reflect the desires and needs of dairy farmers.

Each individual dairy farmer would be assured the right to cast his ballot in the referendum. If a cooperative marketing association chose to exercise the option to vote on behalf of its membership, it would be required to inform the membership of how the vote was cast and the reasons for the action. At the same time, information would be provided as to how a member disagreeing with the cooperative's action could cast an individual ballot.

This assures a broad participation by dairy farmers. It assures them that they will have complete information on the program before making an individual decision. Finally, it guarantees them the opportunity to exercise their vote as an individual if they should so desire.

There is another point that should be clearly understood in this regard. Dairy cooperative marketing associations are owned and operated by dairy farmers. While professional management is employed to carry out the operations of the cooperative, the policy decisions are made by dairy farmers themselves through member-elected Board of Directors. These directors act on behalf of their fellow members in determining policy. As one who has been active in his own cooperative throughout my career as a dairy farmer, I know that one of the prime requirements within such an organization is action that is in keeping with the desires of the membership.

Because there are already substantial milk promotion programs in operation throughout the nation, the opportunity exists to expand these efforts with little or no administrative or overhead costs. The National Promotion Board directing the program would be able to receive proposals from existing agencies, review them and, if accepted provide funds for such operations.

This would mean, in the fullest sense, that this program would operate on a complimentary basis with existing promotion efforts. As clearly stated in the legislation, it is not intended to replace or supplant existing programs. These are effective, they must be continued. What we are seeking here is a means of making existing programs more complete, more effective and to do a more complete job on a national basis.

ANTICIPATED IMPACT OF NATIONAL DAIRY PRODUCTS PROMOTION PROGRAM

What benefit can dairy farmers expect from funds committed to a program of promotion of manufactured dairy products?

Several years ago, the Economic Research Service of the U.S. Department of Agriculture conducted extensive research into the impact of promotion programs aimed specifically at butter and cheese. The findings of these studies were published in BUTTER AND CHEESE, Sales Changes Associated With Three Levels of Promotion, Agricultural Economic Report No. 322, January 1976. These studies indicated substantial potential returns from such programs. Quoting from the report's summary:

> "A 9-cent per capita investment in promoting butter in controlled market tests resulted in a sales gain of about 4.5 percent over sales with no promotion. The study period was May 1972-73. Sales dropped, however, by 4.5 percent when the investment level was 6 cents per capita and by 3.5 percent at a 3-cent promotion level. The negative results were apparently due to counter-promotions for oleomargarine in the form of advertisements that offered cents-off coupons on oleomargarine."

> "For cheese, the 3-cent-per-capita promotion level did not increase sales significantly. But gains of about 15 percent occurred at promotion levels of 6 and 9 cents. Moreover, for each 1-percent change in the number of trade advertisements for cheese (both retailer and manufacturer), cheese sales changed one-half of 1 percent in the same direction."

Overall, it was concluded that a $12 million expenditure nationally would have increased cheese consumption 244 million pounds annually or about 2.4 billion pounds milk equivalent. A national promotion program for butter costing $18 million would raise butter sales by 450 million pounds milk equivalent. The estimates for butter assumes there would be counterpromotion of oleomargarine as occurred in USDA's test markets.

Updating the results of the USDA work to reflect increases in advertising costs, it is estimated that it would cost $72 million today to operate the cheese and butter promotion programs described above. Such programs would increase consumption, however, by almost 2.9 billion pounds milk equivalent. If the alternative market for this product was the CCC, this represents a savings of $460 million in reduced government purchases at the present $13.10 support level.

The USDA study was based only on the impact of promotion efforts on sales through supermarkets. It did not measure or estimate the potential increase through other outlets. Therefore, it could be expected that the impact would be somewhat greater than presented.

The results of the USDA investigation are borne out by the experience of the "Slice of Life" cheese promotion campaigns conducted in 1980 and 1981 by the United Dairy Industry Association. These promotion efforts were conducted during September, October and November each of the two past years. The cumulative effect of the effort was a measured increase in cheese purchases of 16 percent when comparing 1981 with 1979.

The initial effort in 1980 brought about a 15 percent increase in purchases over the previous year. When repeated the following year, this 15 percent gain was maintained and a further, though marginal, increase recorded. It should be recalled, however, that the program in 1981 was conducted during a period of recession and consumer pessimism that was also characterized by relatively low prices for beef, pork and chicken which are traditional protein trade-off for cheese.

A good deal has been said of the level of spending for advertising and promotion by others in the food and beverage industries as justification for expanded efforts by the dairy industry. I am not making a case that this be done simply because others are doing it. My argument for such efforts is that these programs do work. They do bring about increased sales of the farmers' product.

Such a program of expanded promotion of manufactured dairy products is a necessary compliment to existing promotion efforts as well as an essential companion to the Dairy Stabilization Program outlined by Mr. Barker.

Together they will work to bring about a restoration of the supply-demand balance within the dairy industry and serve to maintain strong markets for dairy farmers. In the end, that is the basic essential needed to assure a continued supply of milk to meet the needs of the nation.

FULL SUPPORT DAIRY PROMOTION PROGRAMS THROUGH EITHER STATE PROMOTION ORDERS OR COOPERATIVE ACTION

State	1981 milk production -billion pounds-
California	14,244
New York	11,093
Pennsylvania	8,965
Washington	3,017
Vermont	2,301
Idaho	2,160
Georgia	1,396
Oregon	1,220
Maine	699
TOTAL	45,095
Cooperative Programs	
Totals estimated	22,526
TOTAL	67,621

Rate of assessment for state programs ranges from 6.5 cents per hundredweight to 1.1 percent of the price of milk. Under cooperative programs, the rate ranges from 9 cents per hundredweight to one percent of the gross price of milk at the farm plus one cent.

NATIONAL DAIRY PRODUCTS PROMOTION PROGRAM

National Milk Producers Federation
April 28, 1982

Federal government outlays under the Dairy Price Support Program have risen substantially over the past two years. These increases can be attributed to an increase in milk production and little or no growth in consumer demand for milk and dairy products. This combination of circumstances has placed great pressures on the Dairy Price Support Program as witnessed by the substantial program revisions approved by Congress as part of the Agriculture and Food Act of 1981. Unless the situation is corrected, budget pressures will force even greater changes in the price support program on which all dairy farmers rely for a basic level of price assurance and for price stability.

As part of an overall industry effort to address this issue, the Board of Directors of the National Milk Producers Federation has directed that legislative authority for establishment of a National Dairy Product Promotion Program be sought.

The purpose of this paper is to briefly outline the proposed program.

Purpose of the Program

The basic purpose of the program is to assist in maintaining and improving dairy farmer income by increasing the consumption of dairy products. This would be accomplished through product promotion and market development programs specifically designed to develop the market through promotion of the sale and consumption of dairy products.

Authority would be provided for the implementation of such promotion efforts directed at fluid milk products, however, during the first two years of the program, funds would be devoted entirely to the promotion of manufactured products.

A related purpose would be to relieve budgetary pressures on the Dairy Price Support Program so as to allow the program to continue to provide a reasonable level of price assurance to dairy farmers.

Need for the Program

Over the past several years, there has been a marked slowing in the growth of cheese consumption. Consumption of butter and nonfat dry milk has actually declined. Per capita cheese consumption in the United States had increased substantially during the 1970's, growing from 11.5 pounds in 1970 to 17 pounds in 1979. By 1980, however, this had increased to just 17.6 pounds and all of that growth had been in types of cheese other than American. American cheese consumption was unchanged from 1978 through 1980. Preliminary data for 1981 indicate little change in this picture. Butter consumption was 5.3 pounds per capita in 1970 but has stood at 4.5 pounds in 1979 and 1980. In 1970, nonfat dry milk was placed at 5.3 pounds per capita. This has declined steadily to 3.2 pounds in 1980. It is to arrest this picture of declining consumption or no-growth that such a program would address itself.

There is another area--imitation dairy products--that is of major concern. It is estimated that 200 million pounds of imitation cheese was manufactured in the United States in 1980. This equated to five percent of the cheese market for the year. Such a market loss affects dairy farmer income. One estimate of this loss potentially places reduced milk prices as the result of imitation cheese sales at

30 cents per hundredweight on all milk marketed in 1980. Based on 1980 marketings of 124.5 billion pounds of milk, this represented an estimated income reduction of almost $375 million.

Most anticipate expanded production of imitation cheese products. From the dairy farmer's perspective, each percentage point loss of cheese market to imitations has the potential of reducing farm milk prices by about six cents per hundredweight for an estimated reduction in farm income of $75 million annually.

General Concept of the National Dairy Products Promotion Program

1. The program would be financed by a uniform checkoff of five cents per hundredweight on all milk marketed. The collection would be made at the plant of first receipt with the funds transmitted to the Dairy Promotion Board.

2. The National Dairy Products Promotion Program is not designed to supplant other existing advertising and promotion efforts operated through state, regional and national organizations. It would, in fact, reinforce and strengthen such efforts.

3. The program would be administered by a Board of Directors composed of dairy farmers. The Board would be appointed by the Secretary of Agriculture from nominees submitted by producers. Board membership would be on a geographic basis to assure representation of all milk producing regions. The draft legislation calls for a Board of not less than 36 members selected on the basis of geography and milk production volume. In determining regional representation, states would not be divided. A region might include more than one state and a region might have more than one director.

4. The program would be directed primarily toward increasing sales and consumption of manufactured dairy products.

   This would provide a national program which avoids duplication of existing programs, concentrates effort on those products least advertised and therefore provide greatest potential for increased sales, and whose impact would yield benefits to all dairy farmers through the milk pricing structure.

   Authority is provided to allow the Board to implement promotion efforts with regard to fluid milk products after the program has been in effect for 2 years.

5. The program would go into effect only if approved by a majority of dairy farmers in an industry-wide referendum. In such referendum, members of cooperative associations would be allowed to vote as a unit. If this were done, the cooperative's Board of Directors would be required to notify the membership of how their vote was cast and the reasons for such vote. At the same time, opportunity would be provided for the individual member to cast a separate ballot.

In addition to providing a means for producers to petition the Secretary to hold a referendum to determine if the program should be continued, the draft legislation directs a referendum after the program has been in effect for five years in order to determine whether or not dairy farmers favor its continuation.

6. The program would be mandatory with no provision for refund to individuals. The program is designed and intended to improve markets and income for all dairy farmers throughout the country. To the extent that this is accomplished, all will share in the returns, therefore, all should share in the commitment.

7. There would be a very limited requirement for staff to carry out the directions of the Dairy Board. For the most part, program activities should be carried out on a contract basis.

STATEMENT OF MR. L. E. LARSON
P. O. BOX 1242, Okeechobee, Florida 33472

I am Louis E. Larson, a dairy farmer from Okeechobee, Florida. I am a member of the Independent Dairy Farmers Association, a dairy cooperative marketing association headquartered at Ft. Lauderdale. I am also a member of the Board of Directors and Executive Committee of National Milk Producers Federation and a past President of that organization.

I appreciate this opportunity to testify on behalf of the National Dairy Products Promotion Program. This legislation will give dairy farmers across the country the opportunity to develop and implement an effective program of product promotion aimed primarily at manufactured dairy products. Not only will this serve as an effective compliment to our existing efforts on fluid milk promotion, it will assist the industry in responding to the growing threat posed to our markets by imitation dairy products.

Dairy products are an essential element of the American diet. According to data developed by the U.S. Department of Agriculture several years ago, they provide almost one-quarter of the protein, 75 percent of the calcium, and 35 percent of the phosphorus consumed by Americans. In addition, they are major sources of a wide range of other nutrients. They also represent a major element of the consumer's food budget even though this has steadily declined over the years.

Because of the wide acceptance of dairy products by the consumer, a good many efforts have been made to develop imitation products which can gain market access based on this acceptance. As the capability of food technology expands, it is increasingly possible to fabricate foods which resemble or purport to resemble natural foods. This is a growing problem for the dairy industry.

In 1980, it was estimated that five percent of the cheese market was given over to ersatz products. These imitation products accounted for about 200 million pounds of the cheese market that year. This meant a loss of market for dairy farmers of about 1.7 billion pounds of milk in 1980. This displaced milk, for the most part, is winding up in Commodity Credit Corporation warehouses as cheddar cheese, nonfat dry milk and butter. An increased capability on the part of the dairy industry to promote natural dairy products--real dairy products--would ease this pressure and help to stem this market erosion.

As a farmer, I am a producer. But I must be concerned about the market for my product. I know that the bulk of the milk I produce goes into fluid milk as my milk is marketed under the Southeastern Florida Federal Milk Market Order which has a Class I utilization in excess of 90 percent. But I must also be concerned about the national market for milk and dairy products.

This concern for the market has led me, through my cooperative to participate in strong product promotion efforts. In fact, all dairy farmers in Florida participate in such efforts through their cooperatives. The programs we have developed in the state have convinced us of the value of these efforts. We know this effectiveness can be further expanded.

On the question of making consumers aware of what is a real dairy product and what is imitation, it appears that the responsibility for this must fall on the dairy farmer. The Food and Drug Administration which is charged with preventing the economic deception of the consumer has regularly refused to strengthen product labeling requirements and has pleaded lack of funds in response to requests that they enforce existing regulations intended to accomplish this end.

Most of the imitation cheese entering the market today does so as an ingredient in prepared foods. As the topping on frozen pizza, as an ingredient in a wide variety of food products. Certainly, the ingredient label includes this information, but few can decipher the fine print and the technical language on those labels and fewer still have the time to stop and read these labels as they make their selections from the thousands of products offered in the store.

And these selections are heavily influenced by the advertising and promotion campaigns funded by food processors.

I refer to the impact imitation cheese has had on our markets, but there are products that have gained a substantial market share as well. We have lost an estimated 72 percent of the butter market over the years. The market for fluid cream has been cut by about 50 percent. The so-called non-dairy coffee creamers have been a major factor here as have the imitation whipped cream products and others. Flavored milk drinks appear in many dairy cases right alongside chocolate milk--but their actual resemblance to a fluid milk product is coincidental.

The industry needs to address these problems on an effective, coordinated basis. The program that could be developed under the authority contained in this legislation would permit this. It would provide the basis for promotion programs which provide the consumer with information on natural dairy products. Such efforts would, of course, have to be factual. The legislation itself specifically bars the use of program funds to support efforts which would make false or misleading claims. I fully support that. I don't want a market for dairy products that is supported on the basis of consumer misunderstanding. Neither do I want to see my market eroded on the basis of such misunderstanding.

I know that simply establishing such a program will not assure success. But the framework provided under the legislation is such that it will provide a program that operates under the direction of dairy farmers and gives the individual farmer assurance that the program will address these basic problems.

For too long, farmers have concentrated their efforts on becoming efficient producers. Our record of success in this area is proven. It is one that I am proud of. It is one that the nation should be proud of. But we have to involve ourselves more directly and specifically in the marketing of our product. We do this through our cooperatives. But we need to go farther and this can only be done on a joint basis. This is why I support the National Dairy Products Promotion Program and urge your favorable action on this legislation.

STATEMENT OF MR. LLOYD H. PATTERSON
ST. JOHNSBURY, VERMONT 05819

I am Lloyd H. Patterson, a dairy farmer from St. Johnsbury, Vermont. I am president of the Cabot Farmer's Cooperative Creamery Co., Inc. of Cabot, Vermont and also serve on the Board of Directors of the National Milk Producers Federation.

I appreciate this opportunity to testify on behalf of the National Dairy Products Promotion Program which is pending before the Committee today. The dairy farmer funded program of product promotion that could be established under the authority contained in this legislation will be a valuable addition to the efforts of dairy farmers to maintain and expand their markets.

Generally speaking, farmers have concentrated their efforts on improving the efficiency of their operations, on becoming better farmers. Too often, they have viewed the marketing function as the responsibility of someone else. This is not as it should be. Marketing is fully as important as production. It is in the market that price is determined. It is there that demand for the product is developed. It is this realization that has been a prime factor behind the development of our dairy cooperative marketing associations over the years. These cooperatives have given us the ability to enter the market on our own behalf. They do indeed represent an extension of our operations beyond the farm gate.

It is with this in mind that dairy farmers in many states have worked for the development of effective programs designed to fund milk market promotion. The basic purpose behind such efforts is obvious. It is the effort of the producers of a product seeking to maintain and expand the markets for their production. I personally have spent a good deal of time to bring about the establishment of such a program in the state of Vermont because I am convinced that it will assist me as a producer.

If we look around the country today, we find that dairy farmers are participating in such programs in substantial numbers. Just counting the states which have mandatory or full-support programs, and the cooperatives which maintain similar efforts among their membership, about 51 percent of the nation's milk supply is now covered under such programs. Additional quantities of milk are included under totally voluntary programs or programs which offer producers the opportunity to seek a refund of funds collected for promotion work.

These programs are effective. Several years ago, Dr. Truman Graf, a noted agricultural economist at the University of Wisconsin, examined the effectiveness of these programs and concluded that they returned dairy farmers $2.20 for each dollar devoted to non-brand promotion.

The bulk of the present product promotion work, however is devoted to fluid milk products. This is necessary and must be continued. As an industry we need to devote additional energies and resources to the products which represent more than one-half of our market. I am speaking of the wide array of manufactured dairy products.

The National Dairy Products Promotion Program would effectively address this need. It would allow dairy farmers to jointly fund a coordinated promotion effort seeking to maintain and expand the markets for these products.

Such work is effective. The research done by the U.S. Department of Agriculture a number of years ago clearly established this fact. The USDA findings were upheld by the market analysis done in connection with the American Dairy Association's "Slice of Life" cheese promotion efforts of the past two years. But to date the industry has not moved forward to make such programs a continuing part of our effort.

Part of the reason for this lack is the lack of resources. Existing programs, as I have said, need to be continued. Diversion of funds from these efforts would simply mean we would have two inadequately funded efforts. Neither would meet the need. Another reason for not developing this opportunity has been the lack of a suitable vehicle. The legislation now before you would fill this void.

There is one point that I would like to emphasize. Any program of this type must have the support and participation of all farmers. This is a simple matter of equity. All producers will participate in the benefits of the effort. All should participate in bearing its cost.

I know that the argument is often made that the decision of whether or not to advertise or promote your product is an individual matter that should be left to the individual businessman. That is fine when we are talking about brand-name type advertising or the promotion of an individual firm. The owner of the firm or producer of that specific brand of product stands to gain or lose by the decision made. Generic advertising is a different matter. In that instance, all producers of the product benefit. The nonparticipation of a portion of the producers only affects them to the degree that it limits and weakens the total program. But their nonparticipation also weakens the effectiveness of the program for those who participate.

Over the past several months, I have had the opportunity to discuss this program with dairy farmers throughout the northeast and from across the country. There is strong support for it. There is enthusiasm for its potential. There is also almost universal agreement that participation must be uniform among producers.

As an element of our overall dairy policy the National Dairy Products Promotion Program can assist in increasingly dairy product consumption, thus reducing Commodity Credit Corporation purchases under the Dairy Price Support Program. This is an additional reason for your prompt action on the legislation.

I thank you for this opportunity. This legislation merits your support and approval.

STATEMENT OF BUCKEY JONES, R. R. 2, SMITHDALE, MISSISSIPPI

I am Buckey Jones, a dairy farmer from Smithdale, Mississippi and a member of the Board of Directors of Dairymen, Inc., a dairy cooperative marketing association owned by dairy farmers throughout the southeast. I would like to direct the bulk of my comments today toward the legislation pending before the Committee which authorizes the development and implementation of a National Dairy Products Promotion Program. Before I do that, however, I would like to state that the proposed amendments to the Dairy Price Support Program contained in the Dairy Stabiization Program are far superior to the administration plan to simply grant the Secretary of Agriculture unlimited authority to set the price support level at whatever point he may choose.

We need the National Dairy Products Promotion Program. Why should I, as a dairy farmer from Mississippi where the bulk of my milk goes to fluid markets feel this way? In the first place, the dairy industry is a national industry and we are looking at a national milk supply. Between 55 and 60 percent of the milk farmers market goes into the production of the full range of manufactured dairy products. The continued strength and stability of the dairy industry depends on strong markets for these products.

The pricing structure of the dairy industry throughout the nation is undergirded by the market prices received for milk used in these manufactured products. Thus, even though the bulk of my milk is processed for fluid use, my milk price is directly dependent on the strength of manufactured product markets.

I am also deeply concerned over the growing problem of competition in the dairy product market. I am not speaking of competition between dairy products produced by various firms. I have reference to the competition we are seeing from imitation dairy products which seek to gain acceptance in the market by trading on the consumer acceptance and recognition of the value of genuine dairy products. This is becoming an increasing problem. It is estimated that five percent of the cheese market in 1980 was taken over by these imitations. Consumers have the right to know--in fact, the need to know--whether or not the product they are purchasing is a genuine dairy product.

The National Dairy Products Promotion Program would provide dairy farmers the capability to more fully address these needs. The bulk of present promotion efforts are devoted to fluid milk products. These have been effective and must be continued. But the industry can and should do more. As a dairy farmer, I want to do more.

The proposed program would provide for a uniform five-cent per hundredweight assessment on all milk marketed by farmers throughout the country. The concept of all farmers participating in the program is not only equitable, it is essential to the program's success. At the present time, many dairy farmers across the country are participating in mandatory promotion programs either under state programs or through cooperative programs. In my own case, I provide eight cents per hundredweight for product promotion programs through programs funded by Dairymen, Inc. But the bulk of these funds go toward promotion efforts for fluid milk. We need the additional effort to expand and maintain markets for the manufactured products.

To be fully successful and effective, programs of this nature require the participation of all beneficiaries. The inequities created under a situation where a portion of the producers carry the burden for all farmers weakens such a program. To be truly equitable, all must participate. In Dairymen, Inc., we feel this principal to be so important that we have, as a cooperative policy position, adopted resolutions stating that the only basis on which we will support the proposed program is that it be supported by all dairy farmers.

But in addition to the equity question, there is the matter of planning and executing an effective program that makes it essential that the amount of money available be known with a degree of certainty. The National Dairy Promotion Board that would be responsible for directing the program would be operating under a great handicap if it could base its planning only on a rough approximation of the available funds. As I understand it, the Board will receive proposals for promotion projects and programs from existing agencies. These would either operate as an extension of these organization's existing efforts or as a compliment to them. No firm commitments can be made if there is uncertainty regarding the ability to fund the programs. Implementation of effective promotion efforts requires lead time for planning. Before this work can even begin, there must be a knowledge that the program can go forward.

While this is a major concern, I must repeat that my primary concern is that of equity between farmers.

There is substantial precedent within the dairy industry for uniform participation in these programs. A number of the major dairy states across the country have such programs in place under state law. Dairy farmers in Pennsylvania, the fifth largest milk producing state, have just completed voting in a referendum to approve such a program. In addition to the state programs, a number of the cooperative marketing associations across the country have full support programs such as we do in Dairymen, Inc., to fund these efforts. Altogether about 51 percent of the nation's milk supply participates in these programs.

Why could not this work be done by simply extending the present efforts or using a portion of the funds already available? As I indicated, the bulk of the current effort is directed toward fluid milk products. This work needs to continue and could, in fact, be augmented. To reduce funding of current programs would merely dilute these efforts and provide inadequate funding for the needed effort on manufactured product. Both efforts would be inadequate.

The promotion programs for fluid milk are, quite often, of a regional nature. For manufactured product, we are dealing with a truly national market. The program that would be developed under the authority of this legislation could address these needs on that basis and provide for coordination of effort throughout the nation.

I am firmly convinced that these promotion programs are effective. My conviction is based on the results of efforts we have made within our cooperative, and the programs we have assisted through our regional and national programs. Further, the research that has been done in this area strongly supports the contention that investments in such efforts yields substantial returns to farmers.

As a producer, an essential part of the success of my operation is the effectiveness of my marketing effort. This is why I rely on my cooperative to market my product. But we must also work to maintain and expand these markets. The added promotion effort that could be accomplished under this legislation would enable this work to go forward. I strongly urge its passage.

STATEMENT OF MR. ARNOLD BARCELLOS, 17735 S. Ward Road
Los Banos, California

I am Arnold Barcellos, a dairy farmer from Los Banos, California. I am a member of the Board of Directors of the San Joaquin Valley Dairymen, a dairy marketing cooperative association headquartered at Los Banos.

I appreciate this opportunity to testify on behalf of legislation designed to give dairy farmers an opportunity to truly assist themselves in meeting problems currently facing the industry. The combination of programs before the Committee as the National Dairy Products Promotion Program and the Dairy Stabilization Program have been under careful review by dairy farmers throughout the country for the past several months. They have wide support among farmers themselves. This support stems from the fact that they embody concepts which farmers believe will assist them in maintaining their operations and the overall stability of the industry.

Right now, the dairy industry is faced with a serious problem. Milk production over the past three years has expanded well beyond commercial market demand. This problem has, of course, spilled over to become a government problem as the products manufactured from this excess milk has been moved to the Commodity Credit Corporation under the Dairy Price Support Program. Program costs have mounted and at a time when Federal budget pressures are growing, it cannot be expected that this will continue.

Dairy farmers recognize this fact. That is why we have worked together to develop and support program changes that will address the problem.

But before we get too far into discussing the problem totally within the context of the dairy industry and the price support program, I would like to make one thing clear. I do not feel that the roots of the problem are to be found totally within the dairy industry or in the price support program itself.

The lack of reasonable alternatives elsewhere in agriculture or even outside agriculture over the past several years has caused the diversion of additional resources to milk production on many existing dairy farms and brought new farmers into dairying. I know this has happened in the San Joaquin Valley where I farm and in discussing the situation with others from throughout the country, it is obvious that this has taken place elsewhere.

Eight or nine years ago, the dairy industry was facing the most severe economic squeeze many could recall. At that time, the situation was reversed. Grain prices were strong. Many dairy farmers left the business during those years to concentrate their resources on that production. I recall testifying before the Dairy and Poultry Subcommittee of the House of Representatives that unless the situation righted itself in the near future, there would be one less dairy farmer in California. Fortunately, the dairy situation did stabilize. A combination of Congressional and administrative actions at that time addressed the issue.

But there should be something we can learn from this. It should not be necessary for the economic well-being of one sector of agriculture to be dependent on the lack of well-being of another sector. A balance and stability across agriculture is better for the total industry and for the general economy as well. If that balance had existed over the past few years, I feel very strongly that we would not be here today.

But we are here and it is to the problem immediately at hand that we must address ourselves. The Dairy Stabilization Program will provide a means for immediately curbing the government cost of the Dairy Price Support Program. At the same time, it affords the individual dairy farmer the opportunity to assess its impact on his operation and make a judgment as to what he should do.

There is no magic answer to this problem. We must reduce milk production and act to increase consumption so as to restore the necessary balance in our markets. The proposal advanced by the administration will bring about a reduction in milk production but only in the long term and only when sufficient dairy farmers have exhausted their resources to the point they are forced out of business.

We have some experience with that situation. A moment ago, I referred to the situation that existed in 1974. We lost a lot of dairymen in those years. When things finally began to stabilize in late 1974, we found that milk production had dropped dramatically. The cost of this drop in production could be measured in lost dairy farmers. It was also measured in the increase in price for milk and dairy products to the consumer. From May of 1974 to December 1975, wholesale butter prices rose 71 percent. Cheese prices jumped 43 percent during the same period.

This is the risk we hazard by actions which can leave us with extremely short milk supplies.

The stabilization program avoids that risk by focusing the remedy on the basic problem--the portion of the milk supply excess to market needs--and encouraging production adjustments by the individual farmer. It serves notice on dairy farmers that they will be responsible for the cost of excess milk production.

Along with this program, the proposed National Dairy Products Promotion Program will assist in maintaining and expanding the markets for dairy products. By concentrating a program of product promotion specifically on manufactured dairy products, we can help alleviate the flow of product to the CCC. We have had strong dairy promotion efforts in California for a number of years. Every dairy farmer participates in program funding because every dairy farmer benefits from its success.

As part of the Secretary's initiative, I was pleased that he intends to work toward increasing the minimum standards for fluid milk products. Under state law, California has maintained standards for fluid milk products higher than those set by the Food and Drug Administration for a number of years. It results in a better product and we feel strongly has been a factor in increased milk sales in the state.

STATEMENT OF STEWART G. HUBER, PRESIDENT, FARMERS UNION MILK MARKETING COOPERATIVE

Mr. Chairman. I am Stewart G. Huber, president of the Farmers Union Milk Marketing Cooperative, an organization of 6,400 family dairy farmers in Wisconsin, Minnesota, Iowa, Illinois and Michigan. I am a dairy farmer and milk 85 cows with my wife and sons on our farm in northeastern Wisconsin.

I appreciate the opportunity to present our views on the Emergency Dairy Adjustment Act of 1982 recently proposed by Secretary Block.

Secretary Block's proposal includes a number of items we wholeheartedly endorse, particularly those dealing with the disposition of government owned dairy stocks. We are firmly opposed, however, to the Secretary's request for discretionary authority to reduce dairy supports at will beginning January 1, 1983.

We do not suggest that no problem exists in the dairy industry or that the federal dairy program is operating ideally. But we feel very strongly that Secretary Block's prescription for the patient threatens its survival rather than enhances its chances for a healthy recovery.

We are gravely concerned about the level of surplus production, the accumulation of dairy products in government storage and the cost of taxpayers of acquiring and storing surplus products. We agree that steps to reduce the stocks and the cost of the program must be considered. We agree with Secretary Block who reportedly has conceded that a supply management program for dairy utilizing producer assessments would be the quickest means of accomplishing these objectives. Therefore, we are at a loss to understand why the Secretary would request authority to lower prices across the board as he has.

It is very clear that the level of milk production is not a simple function of farm milk prices. Production will not move down or up quickly in response price adjustments. Production did not leap in 1977–78 when Secretary Bergland authorized the last significant price increases. Nor has production dropped off rapidly over the 20 months since prices were frozen at the current level . . . in fact it has continued to rise, although the rate of increase is at last tapering off.

Why is this?

Because for the dairy farmer there is no alternative. He's the victim here, not the culprit. He has fixed expenses and production expenses. If they rise, as they have the last 20 months, he must generate more gross income to meet the higher expenses. The only way to do that with the price per unit of production frozen is by getting more volume without a commensurate increase in expenses. That reduces the unit cost of production, making him more efficient and permitting him to absorb cost increases during a period of frozen prices. That's generally thought to be very good . . . something producers in all industries need to do. But it also means more milk is being produced at a time when the domestic commercial market cannot absorb current milk supplies.

The price of milk is not the key to the problem as Secretary Block's proposal suggests. It is a factor, an important factor, but through manipulation of price alone we are not going to achieve the public policy objectives of supply and price stabilization that the program is based on. Lowering milk prices now is not going to solve the problem, it is going to compound it, because there is no alternative for dairymen.

Shall they switch to cash crops? Not at today's prices. Shall they switch to beef or hogs? Not at yesterday's prices, but hopefully tomorrow's. Shall they sell out and find a job in town? Good luck. The fact is that for most the only response to lower milk prices is to produce more milk and hope the price recovers before the creditors foreclose. That means hoping enough neighbors lose their farms before your number comes up.

The dairy industry and the dairy program will work themselves out of the situation we are in just as soon as we have a real recovery in the rest of agriculture and the economy generally. Lacking that, the question becomes which of the distasteful medicines will be administered to treat the symptoms . . . the high level of government outlays and stocks.

We understood that the purpose of the Secretary's Kansas City Dairy Symposium was to come up with the fairest and most effective means of reducing surplus stocks and government costs, recognizing that to be effective it wouldn't be painless for producers. I believe the industry—dairy producers specifically—met that challenge and clearly have rallied around the supply management concept as the most practical, equitable and effective method of dealing with the immediate problem.

It strikes us that the only discretionary authority the Secretary needs is the power to implement a supply management program for milk when supplies are excessive, authority not unlike that granted to him with respect to major crops and many other commodities. One would think, from the Administration's cool to adamantly opposed posture to supply management for dairy, that the idea is somehow revolutionary.

This causes us to wonder about the true objective of Secretary Block's dairy program. If the objective is to cut government costs and stocks, supply management and commercial export sales are the most direct, immediate and effective tools available. Yet the Administration continually comes down for the less effective method of simply cutting milk prices across the board.

SUMMARY

Our organizations are committed to preserving our members future ability to serve the insuring public. We support the goals of Congress and the current Administration to reduce the role of government and the return of a stable economy. We stand ready to assist in the development and implementation of these goals.

STATEMENT OF DR. STANLEY R. THOMPSON, MARKETING AND ECONOMIC RESEARCH DIVISION, UNITED DAIRY INDUSTRY ASSOCIATION

AN EVALUATION OF THE SALES RESPONSIVENESS TO FLUID MILK ADVERTISING AND PRODUCER RETURNS IN 10 U.S. MILK MARKETING AREAS

I. Introduction

The purpose of this report is to summarize the results of a Ten Market Study which was undertaken for the UDIA to determine the effectiveness of non-brand (generic) advertising in increasing fluid milk sales. Nine federal order milk marketing areas and one state order were selected for this analysis. The marketing areas are as follows:

New England (F.O. #1).
Middle Atlantic (F.O. #4).
Georgia (F.O. #7).
Southeastern Florida (F.O. #13).
Southern Michigan (F.O. #40).
Greater Kansas City (F.O. #64).
Upper Midwest (F.O. #68).
Great Basin (F.O. #136).
Eastern Colorado (F.O. #137).
Virginia (state order).

Because of the wide geographic spread among the marketing areas, the Ten Market Study can be considered as a national survey. In all ten markets, results indicate that non-brand (generic) milk advertising increase milk sales by a substantial margin and provides the producer with a viable rate of return on investment. The remainder of this report will be devoted to the technical considerations of the Ten Market Study.

II. Market selection

The markets in this analysis were selected based on four criteria. First, the market should have substantial levels of advertising over a 42 to 60 month period as well as variability in month to month expenditures.

Second, the market should exhibit geographic conformity between the milk marketing area and all ADI's (area of dominant influence) within the media coverage area. Markets in which a large percentage of the sales area is outside the media coverage area were not desirable.

Third, the perceived accuracy of "in-area" sales data is most important. Errors in data are most likely to occur due to inaccurate reporting by handlers of "out-of-area" dispositions, or "in-area" dispositions by outside handlers. Thus, large sales areas were chosen where the ratio of intermarket shipments to total "in-area" dispositions is small.

The final criterion was the availability of data on other variables hypothesized to affect the demand for milk. Not all of these other variables were available for each market. Even when available, however, some variables were not utilized for statistical reasons.

Identical sales response models were specified in each market analysis according to theoretical expectations, and the estimated relationships conformed to those specifications. The decision to estimate similar model specifications for each market lends credibility to the empirical findings as well as facilitates comparisons among markets.

III. The data—Demand determinants

There are many factors that effect the demand for fluid milk. In essence, these factors represent the major determinants of market demand. They are:

The retail price of fluid milk;
The retail price of competitive beverages (soft drinks);
The personal incomes of consumers;
The advertising/promotional expenditures for fluid milk;
The advertising/promotional expenditures for competitive beverages (soft drinks);
The population of the marketing area;
Seasonality;
Changes in consumer tastes and preferences; and
The rate of inflation.

All monthly sales data were adjusted for daily variation due to calendar composition. Retail prices (milk and soft drinks) and personal incomes were deflated by the Consumer Price Index to account for the effects of inflation on these variables. Both milk and competitive beverage advertising expenditures were deflated by media cost indices to account for the inflationary rises in media prices.

The sales area population figure was employed to put milk sales and personal incomes on a per capita basis. Advertising expenditures were put on per capita terms using the media coverage area population.

To account for seasonality of monthly milk sales, eleven "zero/one" variables were specified to assess the variation relative to December, the base month.

All variables mentioned above were statistically tested for their importance in affecting milk sales. In some markets, soft drink market information was not always available. All variables and their coefficients determined by the model were tested to be "statistically significant" at the five percent level. The rule of thumb adopted here for concluding statistical significance (at five percent level) is when the T-ratio is 2.0 or greater.

IV. Analytical technique

Using the above data, separate Ordinary Least Squares models with a polynomial distributed lag were specified for each market in this study.[1] The use of the polynomial distributed lag specification enables the estimation of the "net effect" of advertising on milk sales, taking account of the other variables also influencing milk demand. The polynomial distributed lag function is required to reveal both the direct and carryover effects of advertising on sales. This feature is necessary to estimate the long-run responsiveness of milk sales to milk advertising. The estimated long-run elasticity is used to conduct a subsequent analysis of the profitability of the advertising effort.

In market analyses where the presence of serially correlated residuals were detected, the Cochrane-Orcutt Iterative technique was employed to correct for this program.[2]

As mentioned before, identical response functions were specified for each market. The following equation is an example of the models estimated:

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[1] Almon, S., "Distributed Lag Between Capital Appropriation and Expenditure", Econometrica, 33 (1965): 178–196.

[2] See Cochrane, D. and Orcutt, G. H., "Application of Least Squares Regressions to Relationships Containing Auto Correlated Terms", Journal of American Statistics Association, 44 (1949): 32–61.

EQUATION 1

$$Q_{IT} = \alpha + \sum_{J=1}^{11} \beta_{1J} Z_{JT} + \beta_2 INC_T + \beta_3 P^C_T + \beta_4 P^M_T + \beta_5 AD^C +$$

$$\beta_6 T_T + \sum_{I=0}^{N} \beta_{7I}\, A_{T-I} + E_T$$

WHERE:

T = 1, 2...60 (JANUARY 1975 TO DECEMBER 1979)

N = SPECIFIED LAG LENGTH

Q_I = PER CAPITA CLASS I FLUID MILK SALES ADJUSTED FOR CALENDAR COMPOSITION

Z = ELEVEN ZERO/ONE DUMMY VARIABLES TO ACCOUNT FOR SEASONALITY

INC = PERSONAL INCOME IN PER CAPITA TERMS (1967 DOLLARS)

P^M = RETAIL PRICE OF MILK (1967 DOLLARS), 1/2 GALLON WHOLE

P^C = RETAIL PRICE OF COLA (1967 DOLLARS), 72 OZ. DISPOSABLE BOTTLES

AD^C = SOFT DRINK ADVERTISING EXPENDITURES IN DEFLATED, PER CAPITA TERMS (1977 DOLLARS)

T = TREND

A = FLUID MILK ADVERTISING EXPENDITURES IN DEFLATED, PER CAPITA DOLLARS (1977 DOLLARS)

E = RESIDUAL TERMS

β = REGRESSION ESTIMATED COEFFICIENTS

Most model specifications used a second degree polynomial, which was considered to allow for enough flexibility to adequately fit the data. Since economic theory suggests that advertising is positively related to sales, the lagged advertising effects were constrained at or near zero as soon as the first negative, and/or insignificant influence was detected. In the ten markets, the average estimated lag length was six periods, i.e., the effect of advertising on milk sales had a carryover effect of six months.

For purposes of exposition, the model employed in one of the markets is displayed below in Equation 2. The coefficients appear with their corresponding "T-values" (in parentheses) that denote statistical significance.

EQUATION 2

$$\begin{array}{llllll}
Q_{IT} = & 7.328 & + \ 0.556 \text{ DJAN} & + \ 0.648 \text{ DFEB} & + \ 0.539 \text{ DMAR} & + \ 0.669 \text{ DAPR} \ + \\
 & (9.43) & (8.83) & (9.75) & (8.65) & (.862) \\
 & & & & & \\
 & 0.642 \text{ DMAY} & - \ 0.226 \text{ DJUN} & - \ 0.333 \text{ DJUL} & - \ 0.047 \text{ DAUG} \ + & \\
 & (8.28) & (2.90) & (4.38) & (0.67) & \\
 & & & & & \\
 & 0.791 \text{ DSEP} & + \ 0.692 \text{ DOCT} & + \ 0.528 \text{ DNOV} & - \ 0.0217 \ P^{M} \ - & \\
 & (10.99) & (11.55) & (9.08) & (2.26) & \\
 & & & & & \\
 & 0.005 \ AD^{C} & + \ .0007 \text{ INC} & - \ 0.0086 \ T & + \ 3.49 \ A_{T} & + \ 4.86 \ A_{T-1} \ + \\
 & (2.56) & (3.18) & (4.43) & (1.06) & (2.00) \\
 & & & & & \\
 & 5.97 \ A_{T-2} & + \ 6.70 \ A_{T-3} & + \ 6.91 \ A_{T-4} & + \ 6.47 \ A_{T-5} \ + & \\
 & (3.04) & (3.43) & (3.26) & (3.00) & \\
 & & & & & \\
 & 5.26 \ A_{T-6} & + \ 3.15 \ A_{T-7}; & \sum_{I=6}^{N} A_{T-1} & = 42.8 & \\
 & (2.79) & (2.63) & & (3.36) & \\
\end{array}$$

$R^2 = .98$

$DW = 1.96$[3]

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[3] CORRECTED FOR FIRST ORDER SERIAL CORRELATION; SEE COCHRANE, D. AND ORCUTT, G. H. OP. CIT.

The soft drink price coefficient was statistically insignificant, and therefore not reported. The estimated price elasticity, calculated at mean values, is −.14. Interpretation of the elasticity implies that a 10 percent increase in price decreases sales by 1.4 percent. The income elasticity is .26, implying a 10 percent increase in income will increase milk sales by 2.6 percent. The soft drink advertising elasticity was estimated to be −0.016, and was significant.

The effect of non-branded milk advertising is positive and highly significant. In this example, the total advertising effect in the market is estimated to carry over some seven months after the initial investment. The long-run advertising elasticity is estimated to be .039 with a T-value of 3.36. Ninety-eight percent of the total variation in milk sales is explained by the regression.

TEN MARKET AVERAGES

Since the Ten Market Study can be considered a national examination, we present an average for the ten markets in terms of elasticities and returns on investment.

An analysis of the milk price coefficient for the ten markets implies that, on the average, a ten percent increase in price will cause sales to decrease by 1.7 percent. The price elasticity of −.17 can be compared favorably to those estimates found in other studies. The average income elasticity of .26 indicates that a ten percent increase in personal incomes is expected to increase sales by 2.6 percent. This also conforms to estimates found in similar studies. It should be noted that all elasticities are calculated at their mean values, and have been found to conform to theoretical expectations while being statistically significant.

The long-run responsiveness of milk sales to the advertising effort is represented by the summation of the direct and carryover (lagged) effects estimated by the regression. This long-run advertising elasticity averaged out to be .038 and was found to be both positive and statistically significant. From these figures presented, we can conclude that milk advertising's impact on sales is indeed effective.

Based on the results of the study, it could be stated that consumers, on the average from 1975 to 1979, drank 10.01 ounces of milk on a per capita daily basis. The average for 1979 was 9.96 ounces of milk. Producers, on the other hand, spent an average of 9.0¢ per capita on promotional media from 1975 to 1979. In 1979, producers spent 10.4¢ per capita.

In this study, the return on investment is calculated by comparing the farm value of the increase in milk sales due to advertising to the advertising expenditures made by the producer. To do this, we must derive the increase in fluid milk sales due to advertising and compare it to sales without advertising. Using the long-run advertising estimates generated by the individual market regressions, we find that, on the average, fluid milk sales at the 1979 expenditure levels are 3.6 percent higher than compared to the expected sales if advertising were zero.

TABLE 1.—*Estimated 1979 producer returns to fluid milk advertising for the 10-market study*

Estimated per capita sales of fluid milk: [1]	
With advertising at January 1979 to December 1979 average level (ounces)	3,627
With zero advertising from January 1979 to December 1979 (ounces)	3,498
Per capita sales gain attributed to advertising (ounces)	129
Farm value of per capita sales increase [2] (cents)	22.88
Per capita expenditures January 1979 to December 1979 (cents)	10.40
Producer's net return per capita from advertising (cents)	12.48
Average return on investment per media dollar	$2.20

[1] Sales were estimated using the actual January to December 1979: average monthly advertising expenditures, retail prices, personal incomes and estimated coefficients of the sales response function.

[2] Assuming no supply response and using the 10-market average, 1979 Class I-III price differential of 2.62/cwt., each additional ounce of fluid milk has an estimated farm value of $0.00177.

As indicated in Table 3, for every one dollar spent on promotional media, producers received $2.20, a net return on investment of 120 percent! In all ten markets, the value of increased sales exceeded the actual 1979 media cost. While responsiveness to advertising is important when determining the profitability of increased sales, total expenditure levels and Class I-Class III (or II) price differentials in conjunction with Class I utilization also help to determine program profitability.

CONCLUSIONS

In summation, the findings of the Ten Market Study, while only being estimates of the true economic relationships in the selected marketing areas, support the hypothesis that non-brand (generic) advertising increases fluid milk sales. In addition, the effect of advertising on sales is positive and statistically significant. From the standpoint of this study and others preceding it (the 1978 Cornell study and the USDA's 1963-65 six market test), we find that non-brand (generic) fluid milk advertising continues to be an outstanding investment to the farmer in terms of return per media dollar.

DATA SOURCES

Fluid Milk Sales: Table 8 of Federal Milk Order Marketing Statistics, USDA.

Calendar Adjustment: "Adjusting In-Area Sales Data for Calender Composition", FMOMS Nos. 196 and 210, April 1976 and June 1977, respectively.

Sales Population: Sales and Marketing Managements, Survey of Buying Power, Part 1. Also . . . USDA's Summary of Major Provisions in Federal Milk Marketing Orders.

MCA Population: Sales and Marketing Managements, Survey of Buying Power, Part II.

Fluid Milk Advertising Expenditures: For seven markets: UDIA—D'Arcy MacManus and Masius invoices. F.O. 136—Evens, Inc. of Salt Lake City, Utah. F.O. 13—

Ag Ad Agency of Dairy Farmers, Inc., Miami, Florida. F.O. 68—M. R. Bolin, Inc., Minneapolis, Minnesota.

Media Cost Indices: Marketing and Media Decisions magazine.

Personal Income: Various issues of U.S. Department of Commerce, Survey of Current Business.

Milk Prices: Bureau of Labor Statistics Estimated Retail Food Prices by City. (From June 1978 onward, a BLS supplied retail milk index and benchmark price were utilized.) For F.O. 136, the Great Basin Market Administrators office. For F.O. 64, Farm Bureau's Shoppers Guide. For Virginia, F.O. 137 and F.O. 1, the International Association of Milk Control Agencies.

Soft Drink Prices: BLS Estimated Retail Food Prices by City, and surveys for the UDIA by Burgoyne, Inc. (From June 1978 onward, a BLS supplied retail soft drink index and benchmark price are utilized.)

Soft Drink Advertising Expenditures: Quarterly reports from: Broadcast Advertisers Report and Leading National Advertisers.

Consumer Price Index: BLS News, U.S. Department of Labor. Series-U, all item index. 1967=100.

TALLEY, ANTHONY, HUGHES & KNIGHT,
Bogalusa, La., April 29, 1982.

Hon. RUSSELL B. LONG,
Russell Building,
Washington, D.C.

DEAR SENATOR LONG: I am writing you at the request of Gulf Dairy Association and its 375 farm family members. Gulf Dairy is a marketing cooperative of dairy producers in Washington, Tangipahoe and St. Helena Parishes. They are, of course, interested in and concerned about action that will probably be taken with reference to producer prices for dairy products and the surplus problem that is being experienced in certain parts of the country. Fortunately, in the marketing area of Gulf Dairy, through the effort of farmers and their cooperative marketing associations, there is not presently a serious surplus problem. In fact, production was down 7 percent during the last six months of 1981. For this reason, these farmers strongly feel that any legislation or regulations affecting surplus should be enacted on a regional basis so the farmers who are properly managing their production are not penalized in order to subsidize areas of the country with significant surplus.

We recognize that the issues are complex and that there are no simple solutions. A representative of the Association would welcome the opportunity to be heard at any hearings that might be held on this subject. One proposal that we understand will be made would involve a freezing of the Class 1 price of milk for a period of 18 months with a price of Class 2 and Class 3 milk being determined by the market place. If this were implemented on a regional basis, it would cause the economic burden of surplus production to fall on those that have created the surplus. Many other potential solutions have also been proposed. Because of the vital effect any change in the pricing structure of milk will have on the livelihood of the dairy farmers in Louisiana, we would like to be aware of any significant developments in this area. Should you need more information, please feel free to contact me or Dr. W. R. Wallace, Manager of Gulf Dairy Association, Inc., at P. O. Box 200, Kentwood, LA 70444, telephone number 504-229-8266.

Thank you for your continued interest and helpfulness.

Yours truly,

RICHARD F. KNIGHT.

EDWARDSBURG, MICH., *May 27, 1982.*

Hon. JESSE A. HELMS,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, D.C.

DEAR CHAIRMAN HELMS: I read with interest your statement accompanying the introduction of S. 2533, the administration's "Emergency Dairy Adjustment Act of 1982," and that a hearing has been scheduled by your committee for May 27, 1982. This letter is submitted for the Record of that hearing.

By way of background, I am a full-time family farmer in Southern Michigan concentrating on grains and dairy. Currently, our milk production is about 2,000 to 2,500 pounds per day. We have been in dairy production since the start of farming some twenty-years ago.

Because your committee may consider several different pieces of legislation, my comments will be generic rather than address any specific bill.

First: Family farmers in this area lost substantial amounts of money (equity) during the past two years. My accountant has informed me that under the best of conditions, there could be a further substantial reduction in equity this year.

Second: During the past five-years, through increased land purchases and ordinary and necessary business expenses, my indebtedness has greatly expanded; albeit, now the price of land has decreased slightly in excess of 10 percent during the past year, according to the latest published surveys for this area. Nearly all costs have continued to rise, while, all prices the family farmer receives for his products have significantly reduced, except for milk.

Third: Currently, the only profitable aspect of my operation is the dairy sector. If this is lessened, through the lack of support by the government, not only I but many family farmers could be forced out of business.

Fourth: Absolutely nothing should be done by the government to lessen the price support for milk based on current production levels for family farmers; that is, farms producing up to between 5,000 and 10,000 pounds per day.

Fifth: To the extent any program changes are required to lessen the government's deficit, they should be applied to large nonfamily farms and to production in excess of the family farmer's production for the last three months of this year.

Sixth: Absolutely nothing should be changed to lessen any government support so long as one ounce of milk or a milk product such as casein is imported into the United States. Hasn't the United States learned anything from observing what has happened to other industries from subsidized imports?

Seventh: Every effort should be made by the government to export the maximum amount of dairy and farm products.

Eighth: The continued viability of the dairy sector of the American economy is crucial to the wellbeing of all Americans.

The American family farmer is an integral and substantial part of the American economy. Without United States farm production, our export-import balance would be chaotic rather than just a disgrace. The manufacturing sector has not shouldered the burden of keeping the balance from going completely off the deep end. But the agricultural sector has been there when the country needed us. Now we need the country to not bury us in return. You and the other committee members must assure the continued survival of the family farmer and thereby the wellbeing of all Americans. If we are allowed to fail, more than just the family farmer will fail.

Please keep me advised of the progress of your committee in this endeavor. Obviously, this is of paramount importance to me and my family.

Sincerely yours,

David R. Cloud.

Trade Association of Proprietary Plants, Inc.,
Baraboo, Wis., June 2, 1982.

Chief Clerk,
Senate Committee on Agriculture, Nutrition, and Forestry, Russell Senate Office Building, Washington, D.C.

Dear Sir: Enclosed are comments relative to other dairy programs being considered, also a suggested voluntary program.

Thank you for your consideration.

Sincerely,

Robert J. Williams,
Executive Director.

NEW APPROACH FOR A DAIRY PROGRAM

(By Robert J. Williams, executive director, the Trade Association of Proprietary Plants)

ANALYSIS OF OTHER PROGRAMS BEING CONSIDERED

1. Gunderson plan

a. Advantages:

(1) Farmers price is maintained or increased.

(2) It would cut production.

(3) Farmers represented on a commission.

b. Disadvantages:

(1) Excessive bureaucracy and administration costs.

(2) Involves a mandatory base plan:

(a) Too much regulation of individual dairy farmer. Political dynamite.

(b) Robs farmers of management flexibility.

(c) The three year moving average base shrinks base for compliers.

(d) Bases, even though attached to the farm, assume a value and become capitalized into the cost of production for farms which are sold or rented.

(e) No referendum with mandatory participation.

(f) The program is too complex to be understood by farmers.

(g) The $6.45/cwt for production of milk in excess of the base (90 percent of three year average) will complicate administration of the Federal Order program.

(h) Using the three year average as a base results in inequities to farmers depending on whether they have expanded or reduced production over that period of time.

(i) The program would be an accounting nightmare for processing plants, administrators of the program and the dairy farmer.

2. National milk producers plan

a. Advantages:

(1) Will cut production—farmer rewarded for cutting production.

(2) Farmers represented on a commission.

(3) Has a one-year base which is more equitable to producers.

b. Disadvantages:

(1) Too much regulation of the individual dairy farmer. Rank and file farmers object to government regulation.

(2) Robs farmer of management flexibility. The program is mandatory without a referendum.

(3) Excessive bureaucracy and administrative costs, though less than Gunderson plan.

(4) In effect, has a base thus has all the disadvantages listed under (2) of the Gunderson Plan but to a lesser degree.

(5) The assumption of the costs of any surplus over 3 or 4 billion pounds has the following effects:

(a) Reduces all milk about $1.00/cwt. from current levels. The current manufacturing milk price is $12.45; minus the $1.00 surplus cost nets $11.45. The farmer does have the option to reduce production 10 percent to recoup the $1.00/cwt on his 90 percent of production.

(6) The program could become permanent without a sunset provision.

3. The Administration Program-Helms Plan

a. Advantages:

(1) Minimum of Government regulation.

(2) Some provisions would have some effect on increasing demand and reducing production.

b. Disadvantages:

(1) Too much Congressional power transferred to the Sec. of Agriculture. Undermines the Price Support Program.

(2) The minimal short term effect on supply and demand is not sufficient to remedy the present serious problem.

(3) It will not reduce costs of the Price Support Program for the next two years sufficiently to benefit taxpayers, farmers or help reduce inflation or interest rates. Too much product will continue to flow to the government.

(4) The provisions of the plan including: giving farmers a few months to reduce production, cut FHA loans, increase distribution of surplus dairy products, investigate casein imports, increase exports and give away, higher standards for solids in fluid milk, encouraging bakery use, having a dairy advisory board, increase animal feed use and work with private industry to promote and sell dairy products, will not solve the short run supply situation. This leaves it up to the Secretary to drastically reduce price supports by Jan. 1, 1983 which will be disastrous to low equity and young farmers. Thereafter high equity farmers will have to increase production to stay solvent and cover fixed and variable costs.

(5) The cut in price support for manufacturing milk producers can be circumvented by Coop. negotiated Grade "A" premiums and State Milk Orders such as those in California.

NEW APPROACH FOR A DAIRY PROGRAM

(Suggested by the Trade Association of Proprietary Plants)

BASIC PRINCIPLES

1. Maintain present price support level for a two year period. Consideration could be given to lowering it a reasonable amount up to $1.00/cwt. which would solve the surplus problem more quickly but it may not be politically feasible to do so. From the standpoint of dairy farmers it would not be politically feasible but it might be from the standpoint of consumers and tax payers.
2. Pay farmers an incentive payment of $7.00/cwt. to reduce production from comparable months in Oct. 1981 through Sept. 1982.
3. The program would be voluntary.
4. The program would be in effect for two years. Temporary.
5. At the end of 2 years the Secretary would be authorized to drop supports of 55 percent of parity if CCC purchases exceeded the rate of 4 billion lbs. of milk equivalent or $800 million.
6. The program would be administered by A.S.C. in coordination with Federal Milk Marketing Order personnel.
7. After 2 years the price support rate would return to 75 percent of parity unless the CCC purchasing rate exceeded 4 billion pounds in which case the Secretary could set the rate at 55–70 percent for the following year.
8. Individual dairy farmers could contract to reduce production by a specified amount or percentage for a one or two year period. Some leeway such as 2 or 3 percent might be necessary for compliance from a practical standpoint.
9. The Secretary would have discretion to review the level of Class I prices in Federal Orders to determine whether negotiated super pools were undermining the intent of the surplus reduction program. He could also determine eligibility for sales to CCC in states which had State Milk Orders which unduly enhanced milk prices which undermine the intent of the surplus reduction program.
10. If the price support level were dropped the full $1.00/cwt. processors and the industry would be compensated for stocks on hand as of Oct. 1, 1982.

GENERAL ADVANTAGES OF THE PROGRAM

1. It is voluntary so would have less political repercussion. More acceptable to dairy farmer.

2. The individual dairy farmer has maximum management flexibility. He can reduce production a specified amount (0–100 percent) for a one or two year period. He can choose not to participate. He can increase production with the possibility of getting 55 percent of parity after two years. He can reduce production in various ways, such as culling cows, reduced feeding, feeding milk to calves etc.

3. The farmer is paid $7.00/cwt. to voluntarily reduce production. This provides a safety net which covers fixed costs associated with the reduced production. He receives $7.00/cwt. plus eliminates the $7.00–$8.00 variable cost of producing milk for a total return of $14.00–$15.00 on reduced volume. This is in contrast to receiving $12.45–$13.00 if he produces the milk. The $7.00/cwt. is not an absolute figure and is subject to study and determination.

4. A larger proportion of the price support dollar goes directly to the farmer. When CCC supports milk at the present level ($12.86 for 3.5 percent or $13.10 for 3.67 percent milk) an additional $4–$5 is involved in processing, packaging, grading, transporting, interest, storage costs etc.

So, in effect, the cost per cwt. to support milk is $13.10 plus $4–$5 or a total of $17.10–$18.10/cwt. These associated costs do not go to the dairy farmer.

It is logical to pay the farmer $7.00/cwt. to not produce the milk vs. paying $17.10–$18.10 for purchasing product. The farmer receives enough to cover fixed costs and stay in business and the Government saves $10.10–$11.10/cwt.

5. If it was decided to reduce the price support level from the present, consumers would also benefit in the form of lower consumer prices.

6. This program would be the easiest, quickest, fairest and most effective way to solve the present surplus problem.

GENERAL DISADVANTAGES OF THE PROGRAM

1. Paying producers not to produce is politically unpalatable but in contrast an ineffective administration's program may be more unpalatable in the long run.

It would be more acceptable to consumers if there were some kind of cut in price supports which result in lower prices to consumers.

In actuality, all farm programs have directly or indirectly paid farmers to cut production. For example, the old conservation and acreage reserve programs. Even the present grain set-aside program indirectly pays the farmer by guaranteeing a target price if he cuts production. The N.M.P.F. plan which includes a refund is paying producers for not producing. A refund of $1.00/cwt. on 100 percent of base production for cutting back 10 percent of production actually amounts to a payment of $9.00-$10.00/cwt. when applied to the 10 percent reduction.

One might call the $7.00 incentive payment a "surplus cost reduction payment" or a "cost reduction payment" to reduce the stigma.

In the final analysis the program which most effectively and quickly reduces Government support costs will prove to be the most palatable to taxpayers and beneficial to the economy.

SPECIFIC ADVANTAGES OF THE PLAN

To the Dairy Farmer

1. Voluntary-minimum government regulation.
2. Provides safety net to cover fixed costs on volumes of reduced production. Protects farmers investment and allows for bank payments.
3. Farmers have maximum alternatives and flexibility to make management decisions.
4. A higher proportion of price support goes to the farmer.
5. No bases are involved, avoiding associated problems.

To the consumer and taxpayer

1. If supports are dropped to a reasonable amount it will be reflected in lower consumer prices for dairy products. This would also help inflation.
2. Assures an adequate supply of milk at reasonable prices in the future.
3. Lower program costs mean lower taxes, less inflation and quicker return to a balanced budget and lower interest rates.

To the Government

1. Simple to administer and no additional bureaucracy. Minimum costs of administration.
2. Minimum Government regulation and a path back to free market pricing.
3. Minimizes and spreads the impact on other segments of agriculture including beef and grain farming.
4. Preserves the price support and Federal Order programs in the best interest of producers and consumers.
5. It is temporary in nature.
6. Reduces production on the highest cost and least efficient farms.
7. The principles allow for maximum flexibility in design and administration. Appropriate numbers can be negotiated for price support level, level of participation totally and by individual farms, amount of incentive payment, length of contract and other provisions. These can be ironed out between Congress, the administration and farmers in the basic legislation and program development.
8. This plan represents a compromise between the administration program and base programs now being considered.

ESTIMATED PROGRAM COSTS

First marketing year—October 1, 1982-November 1, 1982

1. Assumptions:

a. Total production previous marketing year (Oct. 1981-Sept. 1982) was 135 billion lbs.

b. Domestic consumption 122 billion pounds.

c. Surplus—13 billion pounds milk equivalent (M.E.).

d. First year contract for 15 billion lbs. of milk (would enable Gov't to sell 2 billion lbs. of present surplus stocks into domestic market.)

2. Calculated costs:

a. 15 billion lbs. at $7.00/cwt equals, $1,050,000 vs. a cost of $17.10 for purchasing 100 lbs. of milk equivalent in the form of dairy products. (To support milk at $13.10 requires an additional $4.00/cwt. for associated costs of processing, grading, packaging, transportation and storage.)

In the absence of the T.A.P.P. program costs would be an estimated $17.10/cwt. for 13 billion lbs. for a total cost of $2,223,000,000.

The savings of such a program would be $1,173,000,000 the first year.

b. In addition, the Gov't. would sell at least 2 billion lbs. of M.E. from present storage stocks for a return of 105% of $13.10 or $13.75/cwt for a total of $275 million.

The net cost of the Gov't would be $775 million. (i.e. $1,050,000,000 minus $275,000,000) This is in contrast to an estimated net cost of $2,223,000,000 without the proposed program.

Even if the administration would drop the price support rate to $12.00/cwt. they can expect about the same amount of purchases in 1982-83 as they had in 1981-82. Assuming they did realize a drop of 2 billion lbs. of purchases (unlikely) they would have to purchase 11 billion pounds at $16.00 ($12.00 plus $4.00 associated costs) for a total cost of $1,760,000,000 without being able to sell any product into the domestic market. Their program would cost roughly $1 billion more than the T.A.P.P. program and create hardship on the dairy farmers.

c. Further savings could be realized with the T.A.P.P. program if the price support level were dropped $1.00/cwt. But they would be negligible as the Gov't. would purchase little if any dairy products except possibly in the spring. With supplies in balance with demand, the industry would assume necessary storage.

Second marketing year—October 1, 1983-November 1, 1984

1. Domestic consumption will increase 1.5% to 123.83 billion pounds.

2. Contract for 10-12 billion lbs. of milk, depending on supply-demand and market situation.

3. Calculated costs—12 billion lbs.

a. 12 billion lbs. at $7.00/cwt. is $840.000,000.

b. Few if any CCC purchases. Gov't unloads present storage stocks as required.

Third year—Program ceases

1. Government sets price support at 55-90 percent of parity depending on supply situation to keep program costs to less than $800 million or some lesser figure.

2. The free market should be fully operative after the second year of the T.A.P.P. program. It may be operative in much of the first and second years as demand should exceed production.

There are many variations to choose from as to volumes contracted per year, price support levels, incentive reduction payments etc. all of which will affect costs. But the economic principles are sound. One might have to limit participation by areas to prevent hardship on effected processing plants; increase participation in other areas which have experienced large increased production in the last 3 years where manufacturing facilities are lacking; or one can have an across the board cut in all areas. The incentive payment may result in too much participation rather than not enough on a voluntary basis with a $7.00 incentive payment.

Processing plants are equally concerned as producers as to the welfare of the dairy industry. In the end, what is good for producers is good for dairy plants. The surplus problem is causing unnecessary expansion of manufacturing facilities, price cutting, loss of premiums, slow payment by cheese buyers, unjustified quality discounts and forced selling to the Government Proprietary plants prefer selling to the domestic market, not to the government.

In the absence of a referendum it would be wise for Congressmen to survey their individual farmer constituents prior to adopting any specific program or piece of legislation. They should be given a chance to indicate a choice between the Gunderson Plan, National Milk's plan, the Administration plan or a plan such as the one advocated here. There may be differences of opinion between the rank and file farmer and their leadership, especially on programs containing bases. This is important to politicians, the dairy industry and the dairy farmer.

STATEMENT OF E. LINWOOD TIPTON, SENIOR VICE PRESIDENT, MILK INDUSTRY FOUNDATION AND INTERNATIONAL ASSOCIATION OF ICE CREAM MANUFACTURERS

I am E. Linwood Tipton, Senior Vice President of the Milk Industry Foundation and the International Association of Ice Cream Manufacturers.

The Milk Industry Foundation is a trade association representing 350 processors and distributors of fluid milk and fluid milk products, including yogurts, cottage cheeses, sour creams, dips, dressings, eggnogs and other similar products. The member companies of the Association operate 800 plants, and process about 75 percent of the total fluid milk processed, bottled and consumed in the United States.

The International Association of Ice Cream Manufacturers is a completely separate and autonomous organization representing ice cream manufacturers. Its 250 member companies operate 600 plants which manufacture about 80 percent of the total ice cream and related products consumed in the United States.

We are most pleased to appear before the Committee and provide our views on milk price support legislation. Despite changes to the program which has held the same price level since October 1, 1980, milk production has continued to increase and is now at an all-time high, while consumption of milk and dairy products is static. This combination of facts has resulted in the government purchasing huge amounts of surplus dairy products, at a substantial cost to the taxpayers.

The USDA now estimates net Commodity Credit Corporation (CCC) outlays for the Milk Price Support Program will be $1.9 billion during the current fiscal year. When interest costs for storing the burgeoning surpluses are added, the program will cost nearly $2.4 billion. We project that if no changes are made to the existing program, net CCC outlays over the next three fiscal years will be $1.5, $1.5 and $1.3 billion respectively. Interest costs will hover at 1/2 billion dollars during each of those years making the program's total cost about $2 billion per year and for the three year period a total of nearly $6 billion. Virtually everyone agrees with Secretary Block that this is "intolerable" and something must be done. However, the opinions become more diverse, when one addresses the question of "what should be done."

Our Position

Both the Milk Industry Foundation and the International Association of Ice Cream Manufacturers endorse the milk support program as a reasonable and effective means of stabilizing milk production. Our concern, however, is that existing support price levels are above those needed to assure adequate supplies, are unnecessarily reducing consumption of milk and milk products, are creating in the minds of consumers an adverse image of the dairy industry and its products, and during a near crisis period of a "runaway budget", the milk price support program is adding to the deficit significantly.

There are basically two types of programs for reducing milk production under consideration:

- An outright reduction in the price support price, and
- The establishment of producer bases or quotas with assessments imposed on individual dairy farmers for "excess production."

We have analyzed each of the specific proposals very carefully and published a report comparing the results. The report is entitled "An

Analysis of Proposed Changes to the Nation's Dairy Policies - 1982." It was prepared for our two associations by Economic Perspectives, Inc. along with the advice and consultation of four of the country's top dairy economists. A copy of the report has been made available to each of you, and I'd like to request that it be made a part of the record. The study's findings, and our own independent deliberations have led the nation's milk processors and ice cream manufacturers to conclude that the support price should be reduced immediately.

In our opinion, a drop in the support price program of $1.10 per hundredweight as proposed by the Administration will bring production in line with consumption during the next two years. If decreased on January 1 as proposed by Secretary Block, we estimate that CCC removals of dairy products will be 3.6 billion pounds milk equivalent during fiscal year 1984---only one year after adoption. This compares most favorably with the 14 billion pounds which will be purchased this year (FY 82).

The government would save $800 million next year. In fiscal year 1984 (FY 84) with CCC removals down to 3.6 billion pounds, the program's cost would be under $400 million, $1.6 billion less than estimates of that year's cost under current law. These estimates, besides being supported by Economic Perspectives, Inc. and several highly respected dairy economists, are also supported by the events of the past.

Some claim that when the support price was reduced in the past, it did not reduce milk production with the inference that it did not reduce government purchases either. They argue that the Administration's proposed price decrease will not have the desired effect this time either. The plain facts are that this is simply not the case.

In the past, the support price has been lowered significantly three times, in 1954, 1958, and 1962. On each of these occasions the CCC purchases were reduced substantially.

- FY 1954-1955 -- Support price decreased 16 percent, CCC net removals dropped from the prior year's 11.3 billion pounds to 5.1 billion pounds——over a 50 percent reduction.

- FY 1958-1959 -- Support price decreased 6 percent, CCC net removals dropped from the prior year's 6.8 billion pounds to 3.5 billion pounds——over a 50 percent reduction.

- FY 1962-1963 -- Support price decreased 8 percent, CCC net removals dropped from the prior year's 11.2 billion pounds to 8.8 billion pounds——over a 20 percent reduction.

It is true that the decreases in milk production were not as large as might have been expected. However, one must look behind the surface numbers to really understand what happened. The fact is that the actual decline in prices received by farmers was much less than the drop in support prices.

- FY 1954-1955 -- The 16 percent drop in support prices was accompanied by a 6 percent drop in manufacturing milk prices and the average price received by all farmers for all milk also dropped only 7 percent.

- FY 1958-1959 -- The 6 percent drop in support prices was accompanied by a 4 percent reduction in manufacturing milk prices and the average price received by all farmers for all milk declined only 2 percent.

- FY 1962-1963 -- The 8 percent decline in milk support prices was reflected by a 6 percent drop in manufacturing milk prices and only a 3 percent decline in the average price paid farmers for all milk.

It is not surprising that milk production didn't decrease as much as anticipated. During each of those periods most of the Class I or bottling milk under Federal Orders experienced minimal price declines. The Class I prices were not directly related to the support price. So the full effect of a drop in support prices was not felt by dairy farmers.

Today most prices in Federal, as well as State Orders, are tied directly to manufacturing milk prices and the support price. Therefore, the full effect of the price support reduction will be realized.

However, even in those earlier periods, CCC acquisitions were decreased significantly. The reduction in milk production combined with the increase in consumption resulted in a significant drop in CCC purchases.

Under the Administration's proposal, we believe supplies would be balanced with demand and prices paid to dairy farmers for manufacturing milk would increase significantly above the support price in 1985, reaching $14.30 per hundredweight or only $0.30 less than the minimum support price for 1985 under current law.

We are opposed to the various base and quota plans which have been discussed. Basically, they are artificial devices to restrict milk supplies below the level that would normally be produced at the prices being paid. Thus, they are by definition unnecessarily inflationary and after a short period create severe inefficiencies because they distort the allocation of resources. Those dairy farmers who have an established base receive some government given right to produce milk, although dairy farmers in other areas of the country may develop significant cost comparative advantages, and therefore, could produce the milk more efficiently.

The study we commissioned provides a more complete analysis of the proposals now under consideration.

Proposals Compared

Although each of the proposals if adopted would reduce milk production, there are significant differences in the impacts.

Our comments here will be limited to the Administration's proposal introduced on request by Senator Helms (S.2533), the Gunderson Quota Plan (H.R.6076), and the National Milk Producers Federation's proposal introduced by Senator Boschwitz, et. al. (S.2587). Mr. Jeffords' bill (H.R.5869) was not analyzed separately, but has the attributes of a quota plan similar to Mr. Gunderson's bill.

Impact on Farmers

The National Milk Producers Federation, Gunderson and Administration proposals would all decrease returns to farmers next year. However, in subsequent years they would increase the support price substantially.

The "incentive to produce" is quite high under both the Gunderson and National Milk Producers Federation's proposals, because they include a "double whammy incentive." Not only is the support price increased significantly, but also as the producer assessment is removed, the actual producer pay price is increased. This most likely will create a yo-yo effect on price and production, i.e., when milk production is decreased the assessment is removed and with the higher support prices plus no assessment, production again increases, requiring the imposition of another assessment.

In our opinion, both the Gunderson and National Milk Producers Federation proposals will create a considerable amount of instability instead of the stability being sought. The support price would be increased by about $3.00 per hundredweight under the National Milk Producers Federation's proposal by 1985, and nearly $3.75 under the Gunderson proposal. In the case of the Administration's proposal, commercial market prices would be above the support price by 1985, and the price support program would be serving its intended role of truly undergirding the system.

Impact on Consumers

The Administration's proposal would decrease prices paid by consumers and increase consumption. Obviously, this will help alleviate the surplus problem and decrease program costs. Conversely, both the Gunderson and National Milk Producers Federation proposals will increase consumer prices and decrease consumption. Thus consumers will pay more for less milk.

Part of the reason for present dairy program problems is that prices have been supported at unnecessarily high levels which have depressed commercial demand. The Administration's proposal will correct this part of the problem while the others will aggrevate it.

The Amount of Surplus Bought by CCC

Each of the proposals will reduce surpluses below the 30 billion pounds expected over the next three years if there is no change in the law. However, because of the built in government purchases of 3.5 billion pounds milk equivalent (Gunderson) and 5.0 billion pounds (National Milk Producers Federation), it is unlikely that CCC purchases will ever fall below these levels under either plan. With the higher prices and zero assessment when CCC acquisitions fall to this level, the producer incentives will increase production again, forcing the subsequent reimposition of an assessment. Again, they will each create a cyclical instability and CCC acquisitions are not likely to fall below the levels specified in the law—i.e., 3.5 or 5.0 billion pounds milk equivalent.

The Administration's proposal would decrease milk production and therefore, CCC acquisitions to less than 2 billion pounds in 1985. This would be below the quantities used in government feeding programs, historically.

Government Expenditures

The study estimates that under current law, the program will cost the government about $6 billion over the next three years. Each of the proposals will reduce this significantly. However, the greatest reduction will come with the Administration's proposal, because CCC surplus acquisitions become the lowest under this proposal.

Establishing bases, collecting assessments, determining those qualified for refunds, selecting Board members, and all the other changes to the price support program necessitated under the Gunderson and National

Milk Producers Federation's proposals would require massive regulations and a long time to implement. These proposals are a major deviation from the way the program has operated since its inception in 1949. They would require a greatly expanded bureaucracy to properly administer them. For all these reasons it would take at least nine months and more likely a year to implement them. During this period dairy farmers would have a tremendous incentive to increase production and thereby increase their bases.

Also, the budget saving would in fact not be realized until the 1984 fiscal year.

In summary of the proposals to reduce milk production, we favor the Administration's proposal to provide discretion for the Secretary to reduce the price. However, we can understand dairy farmers' reluctance to accept unlimited discretion, and therefore, the Milk Industry Foundation and the International Association of Ice Cream Manufacturers would not object to some reasonable floor below which the Secretary could not reduce milk support prices.

The Demand Side

The second way to reduce surplus is to increase consumption. However, this holds less promise for solving the problem than decreasing production. Nevertheless, it should be pursued. There are three basic approaches to increasing consumption which are being discussed.

- Increased advertising and promotion of dairy products.
- Increasing the minimum milkfat and nonfat solids content of whole and lowfat milk and the minimum nonfat solids for skim milk.
- Increased sales through government feeding programs.

The Foundation and the International believe there is an opportunity to increase sales of dairy products through improved and expanded advertising. However, before rushing down the road of more nonbranded or generic advertising, milk processors and ice cream manufacturers believe more emphasis should be placed on branded advertising and promotion. In fact, the manufacturing and processing segments of the industry are distressed that H.R.6314 includes a prohibition against using any of the funds which would be collected under that program to promote and advertise branded products. In our opinion, nonbranded advertising programs can be only marginally successful without the full support of a simultaneous branded program.

Nonbranded advertising is designed to promote product benefits common to all brands. However, it is the branded item that is actually purchased by the consumer and through that branded product, the benefits of the product are actually realized.

Unfortunately, the highly competitive nature of the fluid milk and ice cream industries have limited the availability of company branded advertising. Also, many of our members believe the nonbranded advertising has often made it difficult to justify branded advertising expenditures, because the nonbranded programs make it sound as if the benefits are the same for all milk. Therefore, it is difficult to establish benefits in the minds of consumers for one brand compared to another.

A panel of milk producers appeared before the Committee at the earlier hearing. They urged legislation similar to that embodied in H.R.6314.

We strongly believe the prohibition on branded advertising in H.R.6314 is inappropriate and should be removed.

Additionally, H.R.6314 contains two other provisions milk processors and manufacturers find particularly objectionable. First, section 6(2) provides that the Board may have access to handlers' records. This would be a severe breach of confidence. Many of the Board members may well be leaders in their cooperatives who are competing with the handlers whose records they would have access to. This most certainly should be eliminated.

We would suggest that the bill be amended to provide that only those records of handlers necessary to ascertain the correctness of any report required for the purpose of administering the program be available, and that such information be limited by law to officers and employees of the Department of Agriculture. The information so obtained should be kept in strict confidence with severe penalties for disclosure.

We also urge that the bill be clarified to provide for only a single order. The language of the bill appears to permit the imposition of more than one order. Apparently, orders could be gerrymandered to encompass certain plants and exclude others. Producers shipping to the encompassed plants would mandatorily have to contribute to the program while those supplying other plants would not. Inequities would exist. If the program is intended to require all producers to contribute equally to solving the nation's dairy problem, and this is the only justification for participation being mandatory rather than voluntary, then it should apply to the entire country. The bill should be clarified to provide for a single order.

The Milk Industry Foundation and International Association of Ice Cream Manufacturers support expanded advertising and promotion of dairy products, but believe it should be a program which encompasses branded advertising. The Milk Industry Foundation and International Association of Ice Cream Manufacturers are currently working on an alternative to H.R.6314, which would include a processor/manufacturer branded advertising program. We believe this should be carefully considered.

Fluid Milk Standards

Under federal standards of identity, as well as comparable regulations in each of the states, whole, lowfat and skim milks must meet specific milkfat and nonfat solids standards. There has been some discussion of increasing these fluid milks minimums to help alleviate the oversupply problem. Specifically, proponents of this want the federal milkfat and nonfat solids minimums raised to the California level. For a number of reasons, we believe this alternative can play virtually no role in relieving the current oversupply problem. Therefore, we oppose increasing the minimum milkfat and nonfat solids standards for fluid milk as a means of reducing milk surpluses.

Some contend that a higher nonfat solids content will increase product quality and therefore product sales. Others feel the higher costs associated with the additional solids (e.g., 12 cents per gallon on lowfat milk) may have an overriding detrimental effect, particularly in low income areas. The Foundation's Board believes this is a matter which requires more study than has been possible to date.

For a number of reasons, it would take a considerable amount of time to implement a national change in fluid milk standards. The associated regulatory changes would have to go through the Federal Drug Administration's public amendment process. Since federal changes would only apply to milk moved interstate, each state would have to adopt the standards on its own so that the changes apply to milk bottled and sold within the state, as well. Also, a whole new complicated nationwide component pricing mechanism would have to be implemented.

When the higher solids levels were implemented in California, they simultaneously began testing all farmers' milk for both milkfat and nonfat solids content and began adjusting the price as each component varied. In most of the other markets across the country, individual farmers' milk is not tested for nonfat solids content. Nor is the price adjusted for milk of low or high solids content. This would have to be changed.

For all these reasons, we oppose increasing the required amount of milkfat and nonfat solids in fluid milk in an attempt to remedy the surplus milk problem.

Increasing Sales of Dairy Products Through USDA Feeding Programs

A real opportunity exists to increase the use of dairy products in USDA's feeding programs. In fact, the recent reduction in the Special Milk Program, in our opinion, has increased CCC purchases rather substantially.

The program was funded at $119.8 million in FY 1981 and served the equivalent of 8.4 million hundredweight of milk. The funding was reduced in FY 1982 by $96 million, and 1.3 million hundredweight of milk is expected to be served at this reduced level.

	FY 1980	FY 1981	FY 1982	Proposed FY 1983
Half Pints Served (mil)				
Paid	1,611.1	1,352.3	209.4	0
Free	240.6	210.3	30.0	0
Total	1,851.7	1,562.6	239.4	0
Million cwt*		8.401	1.287	0
Program Cost (mil $)	155.8	119.8	23.9	0

*186 half pints = 100 pounds.

Because the government has no reasonable prospect of commercial sale of CCC-owned dairy products, savings from the Special Milk Program are almost entirely offset by the increase in surplus removal caused by the reduction in the Special Milk Program. Consumption declines tend to be about three-fourths the size of the program reduction, according to USDA research. The amount of milk served under the program was reduced by 1,323.2 million half pints — 7.1 million hundredweight. This added to the surplus; was manufactured into butter, powder and cheese; and ultimately bought by the CCC at a cost of $85 million.

Thus when CCC purchase, storage, transportation, and interests costs are considered, there is a net increase in cost to the government of $22 million due to the reduction in the Special Milk Program. And, such a comparison includes no measure of the nutritional and other values of consumption by our nation's school children compared to the product setting in storage and deteriorating.

	(mil $)
Special Milk Program reduction	95.90
CCC Dairy Program purchases: 5.3 mil cwt at $15.97	85.15
Storage and transportation cost: $0.86/cwt per year for two years	12.21
Interest cost: two years at 12.25 percent	20.86
Cost of CCC	118.22
Net savings from program reduction (95.90 - 118.22)	-22.32

This appraisal would be very different, however, if there were commercial or other high value uses for surplus milk. If the products sold for more than $22.32 million, there would be some savings from the program reduction. With the large surpluses now held by the government, this is not the case. The government is looking for ways to give the surplus away.

It is quite expensive to manufacture butter, cheese, and nonfat dry milk from whole milk. If the product is to be donated at a loss eventually, it is cheaper to direct it to a productive use before converting it to manufactured products and before paying storage and other costs to maintain it.

We urge the development of a program which would permit the use of CCC funds to partially reimburse schools for the cost of serving fluid milk, similar to that formerly embodied in the Special Milk Program. We also urge the expanded use of such dairy products including as cottage cheese, sour cream and yogurt in food distribution programs operated by the government. Only small quantities of these products are currently used in school feeding programs and we believe their utilization could be expanded significantly. This could be accomplished by reimbursing the schools or other appropriate institutions for some of the costs of adding these products to their menus. Most schools and other institutions currently have available to them all the free butter, powder, and cheese they can use. This would expand the use of other dairy products through such outlets, reduce CCC purchase of surplus milk and thus reduce government spending.

Summary

We favor:

- A reduction in the milk support price.
- An increase in branded milk promotion and advertising.
- The use of CCC funds to partially reimburse institutions to increase the utilization of milk, lowfat milk, skim milk, cottage cheese, lowfat cottage cheese, yogurt, ice cream and other dairy products whereby so doing the net cost to the government is reduced.

We oppose:

- The use of bases and/or quotas to reduce milk production and increase milk prices.
- Increasing the minimum milkfat and nonfat solids content of fluid milk beverages until further study and analysis shows it will in fact increase milk consumption.

[The following material was submitted by Mr. Tipton:]

AN ANALYSIS OF PROPOSED CHANGES TO THE NATION'S DAIRY POLICIES—1982

SUMMARY

The production of milk has rapidly outpaced consumption since 1979. As a result, the Commodity Credit Corporation (CCC) will have spent nearly $5.7 billion during the three years ending this September to purchase and handle this surplus. Although the Congress twice modified the milk price support program last year to reduce production incentives, surpluses continue to build. Current projections indicate that the imbalance will continue through fiscal year 1985, and the program will cost another $5.7 billion over the next three years unless it is again modified.

This situation has prompted proposals for change from several quarters, including producer organizations and the Administration. These proposals are of three general types: controlling production using quantitative restrictions and assessments; changing the economic incentives by reducing the price support level; and promoting the increased consumption of milk and dairy products. The proposals are widely different in both their approach to the problem and their impacts on producers, consumers, and the federal budget. This report presents the results of an evaluation of how effective each of the proposals would be in correcting the current production-consumption imbalance, and of their impacts on the dairy industry, consumers, and the program budget.

Gunderson base-excess plan

Congressman Steven Gunderson of Wisconsin has proposed a complex and restrictive production control program that involves assignment of production bases to each farmer, adjustment of the bases in relation to utilization, and stiff assessments to discourage "excess" production. Production in excess of the base quantity would be assessed a levy that increases with the amount of the excess. The revenue from the assessments would be designed to cover the cost of a portion of the price support program—for surplus purchases above the 3.5 billion pounds the CCC would first purchase each year.

Management of the program would be vested with a national board, a commissioner for each state, and a program staff to audit each producer. Extensive and complicated legal regulations would be imposed. Development of such a system would require considerable time, perhaps a full year before it could be operational. As a result, it would have little impact on surplus production in fiscal year 1983.

National Milk Producers Federal proposal

The NMPF has also proposed a production control program that involves producers sharing the cost of surplus removal, assuming management of the program and of the surplus disposal. As in the Gunderson plan, a national board would determine milk production needs, establish and adjust production bases, an assess producers when surpluses are expected.

The revenue from the producer assessments would finance surplus removal above five billion pounds per year. The CCC would be required to purchase the first five billion pounds. This proposal also envisions using foreign markets extensively as outlets for surplus products purchased in the price support operation.

Administration proposal

The Administration proposes to hold the price support at the current $13.10 per cwt on October 1, 1982. If supply and use are not coming into closer balance by January 1, 1983, the price would be lowered, probably to $12 per cwt. In addition, new and expanded domestic donation programs would be undertaken along with an effort to increase commercial exports of dairy products.

Demand expansion

There are three proposals that have been advanced for increasing the consumption of dairy products. As part of its overall proposal, the NMPF includes a national product promotion plan that would focus on manufactured products of the type purchased by the CCC. This would require a mandatory five cents per cwt checkoff, generating about $65 million annually, if approved in a producer referendum. Another proposal would change the federal identity standard for milk requiring it to contain more fat and solids-not-fat, hence increasing the amount of milk solids and fluid milk. Another proposal is to allow CCC funds to be used to restore to previous levels the Special Milk Program which encourages milk consumption in schools.

OVERVIEW ASSESSMENT

From the evaluation of the proposals, some overview points emerge:

Unless the economic situation for dairy producers changes markedly from the current projections, or unless the law is changed, restoring the milk supply-use balance will take several years in spite of the two changes made in the law in 1981. The price support program will remain costly, requiring more than $5.7 billion over the next three years.

The central policy question at this time is whether to continue to rely on economic incentives (price supports) to bring production in accord with commercial use, as the Congress intended in the 1981 law, or to shift to a policy of direct government-industry control of production—a reversion to agricultural policies that were prominent in the past but counter to the more market-oriented trend of the past decade.

The comparisons in this report assume that supply control programs could be imposed quickly—within the few months that would remain between the time such authority was signed into law and the beginning of the next fiscal year (fiscal year 1983). However, it is very unlikely this could be accomplished. Therefore, although the appraisals in the report imply higher government costs in fiscal year 1983 for programs that adjust incentives (reduce support levels) than for those that impose supply controls, most likely this would not be the case because of the time required to implement production control programs. Lowering price support levels appears to be more effective in reducing CCC costs in fiscal year 1983 as well as in later years.

The chief disadvantage in proposals to adjust the price-support level, as the Administration proposes to do, is the fact that although such changes can be made quickly, it takes time for producers to reduce production in response to the price support reduction. Because CCC costs then continue high, there is a tendency for the government to overreact, and for the industry to over-respond.

The supply-control proposals, although able to restrict production quickly, have very significant, long term disadvantages:

They involve large, expensive bureaucracies. Once in place, they are extremely difficult to dislodge.

Competition and economic innovation are stifled.

Production is frozen in current regional patterns, regardless of economic advantages or disadvantages that may develop in the future.

They invite efforts to find and exploit loopholes, and expensive efforts to close such loopholes.

They inflate production costs and retail prices, and can be expected to diminish retail markets for dairy products in competition with non-dairy products.

Each of the proposals was evaluated with respect to its likely impact on the dairy industry, government costs, consumer expenditures, foreign trade, and administrative difficulty relative to the current program. Some summary conclusions emerging from the evaluation of each proposal are shown below.

The current program

The minimum price support levels specified in the 1981 Farm Bill for each of the next three fiscal years would further increase the incentive for milk production. Current projections imply that price support levels in the law will not balance production and utilization before fiscal year 1985, unless feed prices increase significantly.

The program costs over the next three fiscal years will exceed $5.7 billion. Milk production will remain relatively high and the surpluses decline only slowly. Even with milk production continuing relatively large over the next three years, consumer costs will continue to increase because of the automatic price support increases in the law.

The Gunderson proposal

This program would be complex and restrictive, counter to the trend of the last decade in reducing government intervention in agricultural production decisions. The assessment for "excess" production would be expected to be large, and to curtail production and reduce CCC costs. If it were possible to implement the program by fiscal year 1983, the production-use balance could be restored by fiscal year 1985. If it could not be implemented until the beginning of fiscal year 1984, as seems more likely, fiscal year 1983 cost would be expected to be large and the achievement of a supply-use balance deferred by at least one year.

Because of the effective production limit implied by the program, the CCC costs for price support operations would be reduced—by about $3.9 billion over the next three years. The program would still cost the government nearly $800 million in fiscal year 1985, since price support levels are increased sharply compared with current law.

By restricting supplies, the program would at the same time sharply increase consumer prices and reduce consumption. Consumers would pay $7.1 billion more for about 2.8 billion pounds less milk over the next three years.

This proposal also raises the price support for milk within the base amount, and producers would receive about $4.1 billion more for their milk over the next three years.

The particular disadvantages of this plan are those that have led to the movement away from allotments and bases in the crop production programs. They tend to distort resource allocations. Production becomes frozen in current regional location patterns, impeding adjustments to changes in economic factors in the future. Also, the bases tend to take on a value of their own. Because of the value of the milk produced within each base is much greater than for excess milk, the base becomes available when the units are bought and sold. Even when efforts are made to avoid capitalization of the higher value, innovative ways are found to capture the higher value in the product unit. This value becomes part of the cost of doing business and that cost eventually increases the cost of producing milk. Because producers could control supplies, prices could be increased to allow profitable production nevertheless.

National milk producers federation proposal

This plan, similar in effect to the Gunderson plan, would also reduce production through levies on milk produced in excess of the base. It differs from the Gunderson plan in that all producers would be assessed, but those that actually reduce production below their base are eligible for a refund of a share of the assessment. It would reduce the CCC costs, although not as rapidly nor as much as the Gunderson plan because the CCC would still be obligated to purchase the first five billion pounds of surplus annually rather than 3.5 billion under the Gunderson plan. CCC costs would be expected to be reduced by $2.9 billion over the next three years.

This program also requires considerable bureaucratic machinery and would require several months to put in place. It is unlikely that it could be in operation much before the beginning of fiscal 1984, thus little affecting fiscal year 1983 program costs.

While farm receipts, after paying the assessments, would be higher over the next three years by some $1.2 billion, consumers would also pay a larger amount, some $3.7 billion for 1.2 billion pounds less milk.

This plan would also impede entry of new producers. Presumably, they would have to operate for at least one year, paying the full assessment, to establish a production base. The provisions for transfer of bases associated with existing farms are unclear.

A major difference between this and the other proposals is its intended reliance on international markets for disposition of the existing and future surplus products acquired through the price support operation. Placing large quantities of stocks in international markets at prices well below the domestic acquisition price would appear to present several complexities. Even if such markets were accessible, sales below domestic prices would contrast sharply with the U.S. policy stance of discouraging such actions by other countries, would likely be construed as a violation of GATT, and could invite retaliatory trade measures on other products in other markets on which the U.S. relies heavily for export sales.

Like the Gunderson plan, this base-excess plan would over time lead to resource malallocation by hampering responses to economic factors which alter regional comparative advantage. The existing regional production patterns would tend to be locked in place.

Administration proposal

This proposal, unlike the other two, attempts to bring production more in line with consumption by reducing the price incentive to dairy farmers to continue high levels of milk production. The price support would be held at the current $13.10 on October 1, 1982, and reduced on January 1, 1983 unless cow numbers have been reduced and production levels decline.

Under the Administration proposal, CCC expenditures would be about $782 million less in fiscal year 1983 than under the current law, but $662 million more than the Gunderson proposal and $290 million more than the NMPF proposal that year. This, of course, assumes the Gunderson proposal and the NMPF proposal could be in operation during fiscal year 1983—an assumption that seems most unlikely due to the administrative difficulty of each. Most likely, the Administration proposal would in fact cost less during fiscal year 1983.

Even if the Gunderson and NMPF plans were in place in fiscal year 1983, over the three years through fiscal year 1985, the Administration proposal would cost less. It would be $4.3 billion less than current law, $0.4 billion less than the Gunderson proposal, and $1.4 billion less than the NMPF proposal. Not only are government costs lower, but milk consumption is 1.5 billion pounds higher under the Administration proposal than current law, and consumer expenditures are $1.7 billion lower.

Since this program only changes the price support level, it does not have the disadvantages of requiring additional bureaucratic machinery, of altering resource allocation decisions, or of creating of capitalization problem.

The Administration also proposes efforts to donate more surplus dairy products in both domestic and international markets, to increase commercial exports in selected markets, to consider steps that might be taken concerning casein imports, to improve consumer acceptance of milk products, and to work toward changing the federal identity standard for milk. Taken together the steps to donate dairy products should effectively reduce CCC stocks that will likely exceed 20 billion pounds, milk equivalent, by the end of this fiscal year—stocks which must be used within a reasonably short time in order to avoid deterioration.

Two of the programs in the Administration's package involve considerable uncertainty. The program to sell U.S. dairy products in world markets implies sales at prices below the domestic price support level and risks undercutting actions now before the GATT to end EC programs of subsidized exports. U.S. sales of dairy products are likely to be small unless large subsidies are used. And, that program risks retaliation against the full range of U.S. exports.

Changing the identity standard of milk could also jeopardize markets for milk. Because the new standards would require added solids-not-fat, and, possibly, added fat, the product would cost more relative to plain milk. The combination of a more costly product, plus a product that contains more milkfat could create a negative consumer image so that new standards could damage rather than improve milk sales.

Finally, the Administration's proposal threatens large cuts in milk price supports. If the support price on January 1, 1983 is reduced to $12 per cwt, and that level held through 1984 and increased $1 in fiscal year 1985, producers' receipts would be $5.2 billion less than under current law. While the reduction in supports implied for fiscal year 1983 is quite large, especially if cost of production increases from its current low level, it is amplified by the threat that it will be even larger. The result is the risk of an inappropriately large disinvestment in the dairy industry in fiscal year 1983, and in subsequent years.

Proposals Compared With Current Law

	FY 1983	FY 1984	FY 1985	*Total*
Price Support	- - - - - - - - - -	($/cwt)	- - - - - - - - - -	
Current Law	13.25	14.00	14.60	--
Gunderson	13.76	15.14	16.83	--
NMPF	13.10	14.43	16.04	--
Administration	13.10/12.00	12.00	13.00	--
CCC Net Removals	- - - (billion pounds, milk equivalent) - - -			
Current Law	11.4	10.0	8.4	29.8
Gunderson	7.8	5.2	3.8	16.8
NMPF	8.0	6.2	5.0	19.2
Administration	7.7	3.6	1.8	13.1
CCC Net Expenditures	- - - - - - - -	(million dollars)	- - - - - - - -	
Current Law	1,942	1,959	1,850	5,751
Gunderson	498	557	793	1,848
NMPF	870	956	1,043	2,869
Administration	1,160	379	- 48	1,491
Consumer Expenditures	- - - - - - - -	(billion dollars)	- - - - - - - -	
Current Law	32.8	35.2	37.0	105.0
Gunderson	32.7	36.9	42.5	112.1
NMPF	32.3	36.0	40.4	108.7
Administration	31.1	33.6	38.6	103.3
Farm Receipts	- - - - - - - -	(billion dollars)	- - - - - - - -	
Current Law	18.3	19.2	19.9	57.4
Gunderson	18.0	19.3	24.2	61.5
NMPF	17.6	19.4	21.6	58.6
Administration	16.7	16.6	18.9	52.2

SUMMARY OF DAIRY POLICY PROPOSALS

	Current Law	Gunderson Proposal	NMPF Proposal	Administration Proposal
FY 1983 Price Support ($/cwt)	13.25	13.76	13.10	13.10/12.00
Producers' Base	None	Previous 3-year average	FY 1982	None
Levy on Excess Production, FY 1983-1985 (mil $)	None	1,367	696	None
CCC Cost, FY 1983-1985 (mil $)	5,751	1,848	2,869	1,491
Milk Consumption, FY 1983-1985 (bil lbs)	370.4	367.6	369.2	371.9
Consumer Costs, FY 1983-1985 (bil $)	105.0	112.1	108.7	103.3
Farm Receipts, FY 1983-1985 (bil $)	57.4	61.5	58.6	52.2
Minimum Price Support	Specified in law	70 percent of parity	67-68 percent of parity	None
Implementation Time	Now in force	9-15 months	9-12 months	Immediate
Additional Administrative Machinery Required	None	National Board State Comms. Local Staff	National Board USDA mkt order and other staff	None
New Producer Restrictions	None	Special Provisions	One year to establish production base	None
Transfer of Base Allowed	NA	Yes, through State Comms.	No	NA
Stocks Disposition	No change	Board discretion	Board discretion	New domestic & int'l programs
Regional Production Impacts	No change	Freezes current pattern	Freezes current pattern	No change
Foreign Trade Impacts	No change	No change	Conflicts with GATT & U.S. policy, invites retaliation	Potential GATT & US policy conflict, potential retaliation

STATEMENT OF DARRYL R. MAHAN, VICE PRESIDENT AND TREASURER, T. G. LEE FOODS, INC., ORLANDO, FLA.

Good morning, Mr. Chairman. My name is Darryl R. Mahan. I am Vice President and Treasurer of T. G. Lee Foods, Inc. in Orlando, Florida. We also operate McArthur Dairy, Inc. in Miami and both of our operations are a subsidiary of Dean Foods Company. Our plants process and manufacture a complete line of fluid milk, fluid milk products and ice cream and our products are distributed throughout Florida with the exception of the Panhandle.

I appreciate this opportunity to appear before you and to present my views on the current dairy surplus problem which now faces both the industry and the government.

In Florida, as in other parts of the country, we realize the government cannot go on year after year spending billions of dollars to purchase billions of pounds of surplus dairy products. Nor should it. The fact that this hearing is being held only six months after the 1981 Farm Bill was passed, shows this Committee also recognizes the problem. Since 1979, the cost of the program to American taxpayers has rocketed upward, climbing from $91 million to over $2 billion. Government and industry experts are predicting that under current law these high levels of cost will continue for years to come.

The present level of imbalance between production and consumption should not be encouraged to continue indefinitely. Something must be done and we believe the right course of action is to decrease the support price.

Decreasing the support price will increase consumption of dairy products, decrease surpluses, save the taxpayers' money and help reduce the budget deficit. A program that only allows prices to go up, no matter what, is unrealistic. With milk production, surpluses and government costs all at record levels the message seems clear. The support price is too high.

We do not want the Milk Support Program to be eliminated. In our type of industry there is a need to maintain a safety net that keeps production from dropping too low. If this happens and you get into a severe shortage, it takes a long time for production to build back up to adequate levels. In the meantime, prices escalate quickly and sales drop off. Therefore, the law should set some minimum price. But today's surpluses show that $13.10 per one hundred pounds is too high.

The other alternative this Committee is reviewing, production controls, has a number of drawbacks. S.2587 will increase consumer prices and decrease sales. It will make this industry more regulated and restrictive, and increase the bureaucracy. Even if this program had merit, given the current surplus and future production outlook, there is not enough time to properly establish such a program and to see any benefits in FY 83. New regulations would have to be implemented for a proper management and determination of production basis. Of course, once in place, these regulations would be very difficult to change. The bill requires the deduction of assessments every month from each of the nation's 323,000 dairy farmers' milk checks. Companies processing and manufacturing dairy products will have to pay these deductions to some government agency. Then each producer under a federal order, including those we receive milk from, will have to demonstrate to the market administrator or in unregulated areas to someone else that he has reduced his production to get a rebate of the deduction. Nationwide, on an annual basis, this could add up to millions of claims. Each claim would have to be recorded and somehow verified by a government official. Hundreds of thousands of rebate checks would have to be processed and mailed. This would be extremely costly. It would be a drastic change to the Milk Price Support Program.

From our point of view, the net effect of production controls is higher costs, decreased sales, a more regulated industry and a larger bureaucracy. Therefore, we oppose the implementation of a production control program. Lowering the support price to a more realistic level will decrease government costs and thereby save taxpayers' money, increase consumption of dairy products, and help balance supply and demand for milk products. It would not require revamping the whole price support program.

Another subject of concern to us is school milk sales. They are off drastically this year. According to a Milk Industry Foundation survey, sales of fluid milk in schools are down 15 to 20 percent below last year's level. Our company's sales are off 16 percent. Everyone agrees the primary reason for this is the reduction in the Special Milk Program.

If the decreased funding for the Special Milk Program was saving the government money and lowering the oversized budget deficit it would have some merit. But because of the present surplus situation this is not the result. In fact, according to a recent study by Economic Perspectives, Inc. the cuts in the Special Milk Program were increasing government expenditures $22 million and excluding nutritional and other values associated with school consumption. This is occuring because fluid sales lost in the schools due to removal of the program's subsidies become surpluses purchased by the government under the Milk Support Program as cheese, butter and powder. Since these products have to be processed more than fluid milk, and may eventually be donated at a loss, it is cheaper to distribute it as fluid milk to a productive use before paying the additional cost of manufacturing, storage and distribution, as is currently the case. Under the Special Milk Program, the government only subsidizes about 50 percent of the cost of the milk. It is less expensive to get it consumed this way than to have the Commodity Credit Corporation pay 100 percent of the cost of purchasing the additional surplus in the form of butter, powdered milk, and cheese.

We are not requesting that this entitlement program be reinstated. Instead we are endorsing the Milk Industry Foundation's proposal to allow the Commodity Credit Corporation to use its funds to subsidize school milk as long as it would save the government money. Additionally, if the government can decrease total expenditures by subsidizing school consumption of other products like cottage cheese, sour cream and yogurt, we urge that this also be done.

I would like to touch briefly on one other subject which deals with fluid milk standards. Some have suggested increasing the minimum amount of milkfat and nonfat solids that must be in milk, lowfat milk and skim milk. We oppose this for a number of reasons. It will increase fluid milk prices and decrease sales, which we do not believe is an appropriate method to solve the problem of production being greater than consumption. Also, most of the time Florida barely has enough milk to meet fluid demand. If our milk standards were raised we would have to import dairy products to meet the higher minimums. According to government statistics, we already pay some of the highest prices for milk in the country. California, on the other hand, has some of the lowest costs. It is not appropriate for Florida consumers, and those in other deficit markets, to have to pay even higher milk prices because California and a few other areas of the country have an oversupply of milk.

Mr. Chairman, thank you for the opportunity to appear before your Committee.

STATEMENT
on
EMERGENCY DAIRY ADJUSTMENT ACT OF 1982 (S.2533)
before the
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION, MARKETING
AND STABILIZATION OF PRICES
of the
SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
for the
CHAMBER OF COMMERCE OF THE UNITED STATES
by
Harold C. Steinke
June 24, 1982

I am Harold C. Steinke, Vice President for Economics and Industrial Relations of the Consumer Products Division of Borden, Inc. I am a past member of the Food and Agriculture Committee of the Chamber of Commerce of the United States which I am representing here today. With me is E. Clinton Stokes, Director of Food and Agriculture Policy for the U.S. Chamber.

The Chamber of Commerce of the United States is the largest federation of business and professional organizations in the world, and is the principal spokesman for the American business community. The Chamber represents more than 250,000 members, of which more than 245,000 are business firms, more than 2,800 are state and local chambers of commerce, and more than 1,300 are trade and professional associations.

The U.S. Chamber represents a cross-section of the American business community -- manufacturing, construction, retailing, services, food and agriculture, exports and more. All of these groups have thousands of businesses represented as members of the Chamber. Yet, no one group represents as much as 23 percent of the total Chamber membership. A category of membership we are very proud of is agriculture -- both farm and off-farm agribusiness. This includes dairy farmers as well as producers of other crops and livestock products.

My purpose today is to express the Chamber's concern over the present state of the dairy industry and to recommend changes which could help save the price support program, maintain adequate supplies for consumers and protect the legitimate interest of dairy producers.

The present program has interfered with the normal operation of the competitive market system. It imposes artificial price support objectives and, as a result, has encouraged excessive production, created burdensome surplus government stocks, increased federal budget deficits and distorted the efficient allocation of agriculture's productive resources. If the present program continues much longer there could be a backlash against it from the American taxpayers, who are demanding that government cut spending, and from Congress. The consequences could be the demise of the dairy support program, undue hardship for the dairy farmers and a disruption in the present ample supply of wholesome products for American families.

New legislation is needed to authorize a dairy support program that can avoid these adverse consequences by being more responsive to changing market forces. A bill has been introduced which, if wisely administered, will meet this need. I call attention to the Administration's proposed legislation, The Emergency Dairy Adjustment Act of 1982, S. 2533, which includes three specific provisions.

Key Provisions of S.2533, the Emergency Dairy Adjustment Act of 1982

This Act would:

1. make the Secretary of Agriculture responsible for determining the support prices for milk;
2. expand the authority of the Commodity Credit Corporation (CCC) to make and finance charitable donations; and
3. create a "Dairy Advisory Board."

As explained below, the Chamber supports the first two points. We have no specific policy on the third but wish to add some general cautions to such an approach.

1. "The price of milk shall be supported at such levels as the Secretary determines necessary to assure . . ." [Sec. 2(a)]

This simple approach has much merit in its forthrightness and simplicity. More especially, the program can be more flexible. It can be adjusted more readily to changing economic factors which determine a producer's margin of profit. The dairy farmer's margin is affected by changes in feed prices and other production costs as well as by changes in the price of milk. Only the Secretary of Agriculture has access to all the economic facts needed to make sound, impartial judgements in the matter. The

Department of Agriculture is the prime collector of the necessary information. The Secretary's staff includes many qualified economists to advise and assist in seeking appropriate support price levels. Industry, economists, trade associations, the academic community, newspapers, and the Congress, depend upon the Department's figures.

We have learned from bitter fiscal experience that the major cause of our dairy problems today is the rigid formula of "80 percent of parity with semi-annual adjustment" which Congress mandated for four years. The Secretary's flexibility to take into account all economic factors and then set support prices was completely lost. This flexibility for adjustment should be restored. History has proven that agriculture secretaries have generally exercised good judgement and have not abused their discretionary responsibilities.

2. The Revised Donation Program [Sec. 2(b)]

The CCC now owns huge stocks of butter, cheese and nonfat dry milk. These are nutritious foods which should not sit in warehouses getting old, deteriorating in quality and accumulating storage charges. We support every effort to utilize these stocks, at home or abroad, whenever they can help alleviate hunger and poor nutrition among those who cannot help themselves.

3. The Dairy Advisory Board [Sec. 2(c)]

We have confidence that the Secretary of Agriculture would regularly seek the advice of knowledgeable dairy leaders and farmers, as well as consumers or others who could help. We see no need for another board, commission or other new layer of government as the proposed legislation would create, by adding "staff personnel, clerical assistance, service, materials, and office space." The additional layer of government would further separate the dairy farmers, their cooperatives, processors and consumers from direct access to the decision making level of the Department of Agriculture.

One of the reasons the present dairy price support program is in trouble is that the marketplace is not given an opportunity to establish a balance between production and consumption. An advisory board could foster a move toward centralized planning of the dairy industry. That would exacerbate the present imbalance, rather than correct it.

Alternatives Will Not Accomplish the Purpose

Because of interest in the large expenditure of Treasury funds for the current dairy price support program, there have been several legislative proposals for change. We oppose any approach which would impose quotas or bases, multiple tier pricing, dairy control boards, new bureaucracies supported by farmers and/or consumers, and so forth. Because inflexible support prices have been a major cause of the problem in the first place, the most direct, efficient and expeditious way to solve the problem is simply to make the price support level more responsive to changing market conditions.

International Trade Caution

There is an understandable interest in increasing U.S. exports of dairy products as a means of disposing of overstocks. In order to achieve this, there have been well meaning but misguided proposals that we subsidize dairy products and trade them in world markets. This sort of additional distortion of the marketplace, and interference with free trade, would only add to the dairy industry miseries, not help them. It would negate our efforts to persuade the European Economic Community (EC) to de-subsidize its agricultural exports.

Relative to production, world markets for dairy products are small. Two groups of countries -- those which are extremely efficient, low cost milk producers and those which are willing to finance expensive subsidy programs -- presently dominate this market. We advise against the U.S. government trying to outspend other countries with export subsidies.

The U.S. Chamber is fully aware of the importance of the present export market for our agricultural products. They account for the largest favorable trade balance of all U.S. export sectors. Indeed, the Chamber has been one of the strongest advocates of expanding such exports. However, we are opposed to subsidizing U.S. dairy exports solely to dispose of surpluses. This form of dumping would almost certainly invite retaliation against U.S. agricultural exports. This must not happen.

Summary

The U.S. Chamber urges that S. 2533, the Emergency Dairy Adjustment Act of 1982, be passed with provision for the Secretary of Agriculture to have discretion to adjust dairy support prices in accordance with changes in production costs and market prices. That will help all farmers and consumers as well as our national economy in the long run.

STATEMENT OF ELLEN HAAS, DIRECTOR, CONSUMER DIVISION, COMMUNITY NUTRITION INSTITUTE

Mr. Chairman, good morning. My name is Ellen Haas and I am the Director of the Consumer Division at the Community Nutrition Institute. I also serve as the President of the Consumer Federation of America, the nation's largest consumer organization, representing over 200 national, state and local groups and over 50 million consumers nationwide. I am most pleased to be here today to discuss with you and the members of this committee methods through which the federal dairy price support program can be brought back into balance and through which the runaway dairy program can be reined in.

CNI, as you know, is a national noprofit public interest organization which conducts programs involving research, education and advocacy on food, nutrition, and agriculture issues. We have appeared before this committee many times to provide testimony on subjects relating to the dairy program and, in fact, it was just about 14 months ago that we appeared to offer our thoughts on the dairy provisions of the farm bill, provisions which have resulted in a program which has only grown more expensive from the already costly levels of last year and which promises to rise in cost even further unless steps are taken to encourage a level of production which is more in line with demand.

Mr. Chairman, I must preface my remarks on the dairy program by saying that CNI, CFA and consumers in general understand the importance of a strong dairy industry, an industry which provides American consumers with a bounty of highly nutritious dairy products, many of which are critical to childhood growth and development. At the same time we firmly believe that the federal government has a proper role to play in stabilizing the fluctuations inherent in this industry and providing a modicum of security to dairy producers so that they are able to weather the bad years in anticipation of the good.

But there is no denying the fact that the program is running out of control today and that steps must be taken to prevent the dairy problem from becoming even worse.

A few days ago we received in the mail a flyer from the USDA Agricultural Stabilization and Conservation Service which illustrates just how severe our troubles are today. As of April 30, 1982, the federal government owned almost exactly 1 billion pounds of nonfat dry milk, and another 1 billion pounds (plus) of butter and American cheese. According to Secretary Block, American taxpayers are spending a quarter of a million dollars every hour, twenty four hours a day, 365 days a year, to buy and store these products and to service the debt into which the CCC must enter to finance these purchases. With this sort of wasteful, and shamful, government spending, its no wonder the Treasury Department will shortly be asking the Congress to raise the debt ceiling considerably above the 1 trillion dollar level.

Mr. Chairman, before taking a look at the various alternatives which have been proposed to deal with the problem that most of us agree must be corrected, I think it is important to step back and examine why we're here in the first place.

I think it is fairly obvious that the intolerable cost of the program today is the legacy of a grossly mismanaged dairy price support program during the late 1970's--mismanagement that revolved around both an inflexible minimum price support level that was much too high and the continuing use of a price support index that is inappropriate for the task.

Following on the heels of a ten percent Administrative increase in the milk price support in April, 1977 the Congress, through the 1977 Food and Agriculture Act, raised the minimum level of parity for milk price support to 80 percent from 75 percent, and required a semiannual price support adjustment. The 80 percent minimum was reaffirmed in 1979.

This policy effectively acted as five percent increase in the gross returns for dairy farmers, and gave the first signal to dairymen to build up their herds and raise production. The real kicker came, however, when the parity index, true to form, began to malfunction as an instrument for setting price support levels.

As we all know, the parity index bears no relation to what costs a farmer faces when he produces milk nor does it bear any relation to the demand for dairy products, which has been stagnant. Nor does it at all reflect the great increases in productivity we have witnessed. The parity index is really nothing more than a instrument for comparing the buying power of average farm returns at one particular time to a previous time. By definition, it is unable to accurately indicate the level of price support that is needed for dairymen and if it happens to indicate the correct price, it is no more than mere coincidence.

A principal problem in using the parity index for purposes of adjusting levels of the dairy price support is that the weights given to important dairy production factors are wholly inaccurate. For example, the cost of feed--which for dairymen constitutes about half of the cost of producing milk--is weighted at only 12 percent of the total index. The cost of labor and wages, another important factor, holds only one fifth of its appropriate weight level. At the same time, the cost of feeder livestock is included as 12 percent of the entire parity index when in reality dairy farmers rarely buy replacement animals and often sell cull calves as feeder calves, affording an income increase.

Well, in 1979, the cost of feeder cattle increased sharply, sending the parity index shooting skyward. Yet at the same time, feed costs held firm--resulting in a situation where government support price increases began to greatly outpace increases in production costs. The incentive to expand milk production became enormous and economic resources flowed freely into dairy production and processing. The 27-year decline in dairy cow number was reversed and, very importantly, the number of replacement heifers brought into herds jumped significantly. In fact, between 1977 and 1981 the number of milk cow replacements per 100 cows rose from an already fairly high 35.3 to an even 40--portending an even greater increase in milk production in coming years--an event we are now witnessing.

To us it is clear that the present enormous problem which is the dairy price support program is an outgrowth of support prices which were too high during the four years between 1977 and 1981 and the use of a support price index which is ill-suited for the job. This has built up a tremendous overcapacity for production in the dairy sector which we must now reduce. This likely will be a painful process for some producers and even handlers who have been encouraged by the program to either come into the business or to expand, but they have no one else to thank but the interests, especially the dairy producer groups, who strenously worked for an excessive price support program in the first place.

On a programmatic level, the lesson we can learn for the future from our current problem is that (1) the Department of Agriculture must have a good amount of flexibility to set the dairy price support at levels which are likely to call forth a supply commensurate with demand, instead of being locked in over a multi-year period to an unrealistically high minimum support level, and (2) the parity index has got to go. The support price program for milk is one of the very few which is based on parity; essentially every other major agriculture support program has been switched to a "cost of production" basis. It is time for the milk program to be brought into the modern era.

We recognize, of course, that the parity index was not used as the basis for setting milk prices in last year's farm bill. And the first recommendation we will make is that this policy continue, that the parity index be placed on the shelf as a historical relic.

The second point plays off the first. For a long time, we have been recommending that the program be moved to an index which reflects the cost of producing dairy products. This would at least provide the program with some logical basis for support price adjustment. But the fact is, even a cost of production index doesn't address the demand problem and that the program must be run with some modicum of market orientation.

What this speaks to, of course, is providing the Secretary of Agriculture with some leeway in setting support levels, as the Administration has requested, instead of tying it to any one index.

At the same time, however, the Secretary should be provided with instructions to set prices at levels which he feels will call forth the correct level of milk over the short term and maintain dairy herds at levels which will produce an adequate amount of milk over the long term.

The Secretary should also be required to examine and make public data relating to expected demand over the short and long terms, exogenous factors such as feed prices and cull cow prices, forage conditions and other key variables. He should be required to announce the price that will be in effect every six months after publishing notice and accepting public comment. This price may be higher, lower, or the same during the preceeding six months.

However, we do not believe the Secretary should have unlimited authority, as he has requested. Instead, both lower and upper limits in absolute dollar terms should be placed to prevent any abuse of the discretion Congress could provide him.

Over the next four years, we would suggest that the upper limits for the dairy support price be those dollar figures set down in the 1981 Farm Bill. And we would suggest the lower limit be one dollar below the current price level, $13.10 per hundredweight of milk. Thus during fiscal 1983 the price support could be set at a level between $12.10 and $13.25 per hundredweight, in 1984 between $12.10 and $14.00, and in 1985 between $12.10 and $14.60.

The beauty of this proposal is that it provides USDA with the flexibility to get milk supplies back in line with demand. Since we're currently producing about 10 percent too much milk and since dairy surplusses continue to flood into federal warehouses, it is fairly obvious that a reduction in the support price is in order. Allowing the Secretary to lower the price by a dollar would provide an incentive to dairy producers to lower production, to cull older, less productive cows and not expand herds and facilities further. And it would give consumers an incentive to drink more milk and eat more butter and cheese. The net efect would be to move supply and demand into closer balance.

Now, if it appeared that the ten percent surplus production was going to evaporate during fiscal 1983, the Secretary would be free, and in fact would be expected, or could be instructed, to increase the support price up to the levels authorized in last year's farm bill. If however, it appeared that production was still running ahead of demand by too great a margin, he could hold the price support to a level as low as $12.10 per hundredweight for another year.

Mr. Chairman, we do not think our proposal is an unfair one, nor is it extreme. Rather it is simply an attempt to provide the Secretary of Agriculture with a little more flexibility than he now has in order to get the dairy program back into balance. The Secretary is not required to reduce the milk support price, yet he has that option to use if production doesn't start to fall off or if demand doesn't pick up. Yet if production does get back into balance, he would not be required to change price supports at all.

Another benefit of this approach is that it involves only a small modification in the current format of the program, and it could be implemented and set to work immediately.

Mr. Chairman, I've taken a great deal of my time today to promote our own strategy for addressing the dairy program, but I want to take a minute or two in closing to comment on a couple of the other proposals that have been made.

In reality, the two main proposals, other than that of the Administration, are variations on the same theme. Both are what would be called "base-excess plans" whereby existing producers are assigned a production base and are penalized financially when their production exceeds that base and, in one case, are conversely rewarded when production falls below that base.

While the base plans could in fact bring down production, the problems with the approach are many. In the first place, it would require a massive new bureaucracy to determine the appropriate base levels and assign them to dairymen. Second, it would take a considerable amount of time, perhaps more than a year, to implement. A proposal would have to be developed, notice and comment would be rquired, an implementation period would be needed. During this time milk production would continue to swell.

Third, the program could "freeze-in" current production patterns, making it difficult for new farmers to begin dairying or for resources to shift from less efficient producers to more cost-efficent producers. The "value" of the base, in that it permitted the base-owner to produce milk at all and then to qualify for the inflated, restricted-supply price, would be capitalized ino both the value of the dairy operation and the cost of producing milk.

Fourth, if the production for any year were understimated and producer bases were set too low, a milk shortage could result, sending consumer prices sky-high.

Fifth, the proposals routinely obligate the federal government to buy between 3.5 and 5 billion pounds of milk equivalent each year and would provide no incentive to bring supplies more in line with demand than that.

Finally, and perhaps most importantly, since the basis of the approach is to restrict the level of milk production, its effect is to boost both producer and consumer prices from year to year. Each proposal essentially carries some minimum parity level at which the support price would be maintained over the next few years and in each case consumers would end up paying more for milk than they would under the existing law, and paying more for milk under either the Administration's plan or our proposal.

In fact, according to a recent study by the agriculture consulting firm, Economic Perspectives, Inc., the base plan proposals would cost consumers between $5.4 billion and $8.8 billion more than would the Administration's approach between 1983 and 1985. And this is in addition to the $350 million to $1.4 billion extra they would cost taxpayers.

In closing, CNI strongly believes that for all the above reasons, moving toward an excess base plan approach is unwise, and that the most direct, effective and equitable alternative and that which is easiest to put into action, is providing the Secretary with the flexibility to reduce the milk price support to a level no lower than $12.10 per hundredweight of milk. Ironically, the effect from this approach is the same for producers in general--a lower price for their milk--as the plans proposed by others, but it has the additional advantages of cutting USDA spending further, reducing consumer outlays more, and actually encouraging increased consumption of dairy products. In short, it is an alternative that truly benefits all interests.

Thank you for the opportunity to present our comments, Mr. Chairman. We would be happy to respond to your questions.

STATEMENT OF GEORGE M. DUNSMORE, COMMISSIONER, VERMONT DEPARTMENT OF AGRICULTURE

I am George Dunsmore, Commissioner of Agriculture, State of Vermont. I have come to Washington to discuss an issue of concern to you, me and, most importantly, the 3,000 Vermont dairy farmers who are wondering what their immediate business prospects are.

Over the last three years, we have experienced a rather dramatic and, frankly, unfortunate change in the supply-demand situation of dairy products. To meet its obligations under the law, the C.C.C. last year had to purchase some 13 billion pounds (milk equivalent) of manufactured dairy products.

For the government and its taxpayers, this situation has imposed excessive costs; for the dairy farmer, it has led to income and market uncertainty. Both parties need an expeditious, carefully constructed remedy.

We have, as you know, had supply-demand imbalances in the past. The current milk surplus has developed over several years as farmers, reacting to incentives within the price support program, increased their production. I think that we all recognize that correction of this imbalance will only be accomplished by imposing financial disincentives on milk producers.

By foregoing the scheduled 90 cent adjustment in April, 1981, and the 75 cent adjustment in October, 1981, the farm price of milk has essentially been "frozen" since October, 1980. The rate of increase in production has slowed, production for March of 1982 being up only one percent from a year earlier, as compared to the three percent gain for the twelve-month period ending December, 1981. One hopes that this slowing is indeed a reaction to the lack of price increases and reflects the dairy farmers' understanding of the Government's new economic signals.

Holding the price constant, however, has not had the necessary effect of reducing production. My sense is, therefore, that we need to consider stronger economic measures. Government expenditures must be reduced soon so that we do not jeopardize the historically successful marketing order system.

Reducing government expenditures will, simple though it may sound, be accomplished only by reducing government purchases of the cheese, butter, and dry powder which the C.C.C. buys. To do this, we need a proposal which strongly encourages commercial consumption of dairy products as well as dampens total production. One effective way to achieve the first objective is to increase our promotional efforts. This past year, the Vermont Legislature adopted legislation which allows the Vermont dairy industry to tax itself for milk promotion at a rate of eight cents per hundredweight. Yet the dairy industry is still outspent by the soft-drink industry by a margin of 10:1. We need to promote our good products more fully; I, therefore, ask you to consider the establishment of a national assessment for promotion, a five cent per hundredweight levy to be collected in addition to whatever farmers are raising regionally. In order to have the best and fairest program, each dairy farmer across the country should participate.

I realize that increasing consumption through promotion is a long-term approach that will not quickly clear our current surplus. The most effective way to increase commercial consumption immediately is to reduce the cost of dairy products to the private sector and, consequently, the consumer. This would obviously entail reducing the price to the farmer and would presumably cause him and his fellow dairymen to reduce their total production; government purchases would decline as production fell and, as importantly, as commercial consumption rose. I want to emphasize that the focus of our efforts to reduce government expenditures should be to develop a proposal which, while reducing production, will strongly stimulate commercial consumption, as opposed to one which achieves the government's goal by simply putting pressure on farmers to restrict production. Such an approach will not only clear the current surplus most effectively but will also serve as a catalyst to the dairy industry's redoubled marketing efforts.

The proposal to cut all milk prices by $1.00 does not, in my opinion, adequately meet these criteria. In essence, it wastes part of the potential stimulus to consumption by allocating part of the cost reduction to a class of dairy products--namely, fluid milk--whose consumption is not particularly sensitive to price reductions. While it would indeed reduce total production, increase commercial consumption and therefore certainly reduce government purchases of dairy products, it would not stimulate commercial consumption as much as would a price reduction which concentrates the reduction on cost to the private sector on that class of products--namely, cheese, powder and the other manufactured products--whose consumption is more sensitive to price reductions. A $1.00 cut in all milk prices would, therefore, not reduce government purchases of dairy products as much as would a reduction in prices which is concentrated on manufactured dairy products. I would like to demonstrate this point by referring to some comparative data.

A $1.00 reduction in all milk prices would result in a certain level of income loss to producers. If we concentrate the cost reduction on manufactured products, a $1.70 reduction in their price would be possible without reducing farm income anymore than would a $1.00 all milk cut. Some very revealing comparisons become apparent. First, total milk production, over both the short and long term, declines the same amount under either approach; as noted above, producer income also declines by a like amount. Both approaches, by reducing the cost of dairy products, stimulate commercial consumption. Note, however, that the effect on consumption is considerably enhanced by concentrating the cost reduction on manufactured products; consumption is increased by 3.81 billion pounds over the present situation. By spreading the cost reduction over manufactured and fluid products, and by thereby wasting part of the effect of the reduction, commercial consumption only increases by 2.89 billion pounds, nearly one billion pounds less than under the "concentrated" approach. The C.C.C. would consequently buy less products under the concentrated approach because there would be less on the market which needed to be purchased in order to support the price of milk. It would also pay less per hundredweight for what it did buy because the price to the government would be reduced by $1.70, rather than simply $1.00. (Since the government buys no fluid milk to support prices, a price reduction [illegible] fluid product does not benefit the Treasury.) Specifically, concentrating the reduction on price-sensitive manufactured product would cause government purchases in the long run (approximately one year) to fall to a desirable level of approximately 4.5 billion pounds, an amount necessary to meet government obligations, at a cost of $750,000,000. By spreading the reduction over all types of products, government purchases would hot fall as greatly and would settle at approximately 5.25 billion pounds, at a cost of $880,000,000.

Let me reiterate that production and producer income decline by the same amount under either approach. The advantage offered by concentrating the reduction on the price sensitive manufactured products is that commercial consumption is enhanced and that the price which the government pays for the products that it does buy is reduced. These two effects act synergistically to reduce the expense borne by the taxpayer more than does an approach which spreads the reduction over relatively sensitive and insensitive products. In summary, let me say that I feel that any price reduction which you implement should be designed to have the greatest impact possible upon government expenditures. As demonstrated in the attached table, an approach which concentrates the stimulus afforded by cost reduction on the price-sensitive manufactured products will achieve this goal most effectively.

Let me turn now to another consideration. The fluid milk differential was built into the modern pricing system to ensure stable, local production of fluid milk. This was clearly wise because of the perishable nature of milk and the cost of transporting a product which is largely water. Such a consideration remains wise. Milk is a highly nutritious food which is at its freshest and most flavorful when produced locally. If we are to successfully increase consumption through promotion, we must be sure that the product is of the highest quality and richest flavor. I would, therefore, urge you to do nothing that will harm the enviable system of local fluid milk production which we have developed in this country. I fear that a $1.00 cut in all milk prices, by reducing the farm price for fluid milk, (which is not in surplus in the northeast) would indeed jeopardize the local production of fluid milk by making it unattractive to continue milking cows in many milksheds which currently serve fresh milk markets. This would not only result in the uneconomical necessity to move fluid milk from distant regions to these markets, it would have a disastrous effect on the economy of Vermont and many other states to whom fluid milk production is economically important. With a substantial percentage of its gross revenues coming from dairying, Vermont cannot afford the loss of that portion of its milk sales which flow from fluid consumption. In addition, I would have you note that the Northeast (where Vermont is located) possesses and serves its own strong fresh milk market, and therefore has a high Class I utilization. The benefit which we gain from C.C.C. purchases is considerably smaller than that derived by other areas of the country. A $1.00 cut in all milk prices would actually penalize us out of proportion to our contribution to the current problem because it would, for no good economic or political reason, curtail the important income which we derive from the fluid sales to our local market. I fear that such income loss would drive enough farmers out of business that the region's ability to supply its own needs might be jeopardized. This would require our region to assume another expensive transportation burden--this time for milk. For these reasons, I cannot accept the notion that the current surplus problem should be resolved without regard to regional ramifications, and I cannot accept any proposal which would allow the Secretary of Agriculture complete discretion to set pricing policy as he sees fit.

My proposal to you, then, is to establish the current Class I price as a floor for that category of milk--thereby maintaining the necessary incentive to ensure a stable, local base of production of fluid milk--and reduce the price of Class II milk by an amount deemed necessary (up to $1.70) to produce the desired decline in government purchases--thereby concentrating the reduction in price and cost on that category of products - manufactured - whose consumption will be most strongly stimulated by such a reduction.

Since this proposal will, barring unforeseen circumstances, eliminate the current surplus and bring government purchases back to an appropriate level, I propose that this reduction of the manufacturing price be considered an "emergency" remedy, to "sunset" at the end of one year. I would suggest that you amend the current legislation to impose this reduction for a period of one year, after which we would return to the historical legislative language authorizing the support of all milk prices within a range of 75 to 90 percent of parity. Such an amendment might include a provision to renew the price reduction action for an additional year, but no longer, if the Secretary of Agriculture were to determine that government purchases at that time remained well above 5.0 billion pounds. Should this latter eventuality occur, it would suggest to me that a different, long-term approach was needed. I would suggest that that approach be a supply-management program such as the one set forth by Congressman Jeffords.

In conclusion, let me note that this proposal--to establish the existing fluid milk price as a floor for that category of milk and to reduce the price of manufacturing milk up to $1.70--could be implemented through the existing market order system. As a one-year amendment to the existing price support legislation, it would provide the short-term solution to the current surplus problem which we need without monkeying up the price support and market order system which we all know has in the main been remarkably effective. It would reduce government purchases of the manufactured dairy products which the C.C.C. buys more effectively than would a $1.00 cut in all milk prices because, while both would reduce total production by a like amount, the concentrated approach would increase commercial consumption more effectively. Consequently, it would reduce the amounts of milk which the government would need to remove from the market in order to ensure stable farm prices and consumer supplies more effectively than a $1.00 cut in all milk prices. It would also protect the integrity of local milk supplies in markets with high Class I utilization, and thereby eliminate the potential for uneconomical and inefficient movements of milk which would occur if local bases of fluid milk production were harmed.

I want to thank you for this opportunity and hope my thoughts will assist your deliberations.

IMPACTS OF SELECTED METHODS OF PRICE SUPPORT REDUCTION

	Short Run		Long Run	
Change in:	$1.00 all milk	$1.70 manuf.	$1.00 all milk	$1.70 manuf.
Fluid Price (\$/cwt.)	-1.00	0.00	-1.00	0.00
Manufacturing Price (\$/cwt.)	-1.00	-1.70	-1.00	-1.70
Support Price (\$/cwt.)	-1.00	-1.70	-1.00	-1.70
Milk Production (bil. lbs.)	- .84	- .84	-4.74	-4.64
Producer Revenue (bil. dol.)	-1.39	-1.39	-1.85	-1.81
Commercial Consumption (bil. lbs.)	+2.89	+3.81	+2.89	+3.81
Government Purchases (bil. lbs.)	-3.73	-4.65	-7.63	-8.46
Government Expenditure (bil. dol.)	- .58	- .75	-1.05	-1.18
New Level of:				
Government Purchases (bil. lbs.)	9.13	8.21	5.24	4.40
Government Expenditure (bil. dol.)	1.35	1.18	.88	.75

STATEMENT OF J. ROGER BARBER, COMMISSIONER
NEW YORK STATE DEPARTMENT OF AGRICULTURE AND MARKETS

Mr. Chairman and members of this Subcommittee, I appreciate the opportunity to speak with you about the dairy price support program. The dairy industry is of great economic and social importance to the State of New York; therefore Federal dairy policy is a critical issue for our Department of Agriculture. New York is an agricultural state and income from dairying accounts for two-thirds of the cash receipts of our farmers. Our 15,000 dairy farms produced more than 11 billion pounds of milk in 1981 with a farm value of $1.5 billion. This ranks New York as the nation's third largest milk producing state. The dairy industry represents an investment in excess of $6 billion, provides employment for tens of thousands of New York workers, and generates very substantial economic activity in every region of the state. I am mindful not only of my responsibility to the dairy industry of New York State, but to some 18 million consumers as well.

I have viewed with concern the buildup in milk production nationally and the imbalance that has developed by the supply and commercial use of milk. It has led to markedly increased government costs for surplus dairy products and burdensome government stocks. Today, however, I would like to express my firm belief in the basic soundness of a dairy price support program and to identify what I believe are very hopeful signs that the supply/demand balance for milk is returning. I do not believe the dairy price support program should be drastically changed without very careful and serious thought. My strong recommendation is that Congress should not provide the Secretary with unlimited discretion to set the support price level. Furthermore, Congress should establish that if any downward adjustment of the support price is justified, it should be accompanied by a mechanism to floor fluid milk prices at current levels.

Within the last few days, I received a copy of the 1981 Dairy Farm Summary from the Farm Credit Banks of Springfield, Massachusetts, which had been compiled by looking at a sample of approximately 160 of the commercial dairy farms which they serve with credit in the New York/New England area. On those farms, the average net earnings per farm went from over $21,409 in 1979 to $10,561 in 1980, and to only $5,613 in 1981. It is clear the net farm income of farmers over the past three years has declined significantly. These figures are a prime example and but one indicator of the cash flow squeeze that farmers throughout New York and New England are experiencing. If these trends continue, we may have a considerably more serious problem than the over-supply of dairy products.

The support program has been an effective means to assure the nation of continuing adequate supplies of milk at reasonable prices while providing dairy farmers with a fair level of returns. I am convinced that with minor adjustments and sound administration of the existing program, supplies of milk will come into better balance with commercial sales and thereby reduce the cost of government purchases.

At this point I would like to make my position clear to the Subcommittee -- I am not advocating or proposing a cut in the support price level. There are signs that milk production is leveling off and even declining in some major producing areas. Consequently, I am cautiously optimistic that within the next six months these adjustments will become more evident and that pressures on the support price program will ease. For one thing, this will allow time for government and industry to carefully analyze the various dairy proposals which have been advanced by interested persons. Some of these call for rather drastic changes in the basic dairy policies of this country -- production bases or quotas, two-price plans and the like. I feel very strongly that any such new program should be subject to a national referendum in which dairy farmers individually have the opportunity to vote their choice.

It is important to recognize that the dairy support program has not been solely responsible for the current imbalance between supply and commercial use of milk in dairy products. Low feed grain and cull cow prices, combined with a lack of off-farm job opportunities due to generally unfavorable economic conditions, have encouraged the expansion of milk production. Dairy farmers have had little incentive to sell cull cows at prices under $40 per cwt; and with low feed grain prices, they have been better off producing milk than engaging in most other agricultural enterprises. In an economy with more than 9% unemployment, there are very few alternative job opportunities for dairy farmers.

Since 1979, there has also been some slackening in demand for dairy products caused by a number of factors. The recession obviously has had a dampening effect on dairy product sales. Relatively low prices of meat and eggs have tended to cause consumers to substitute them for certain dairy products. The dairy industry has been plagued by increased competition from products derived from cheap imported casein, and there has been an increase in the quantity of foreign cheese marketed in the United States. Casein imports alone have resulted in over $300 million in CCC purchase costs annually for the purchase of the non-fat dry milk displaced in the domestic market. The more liberal import quotas on cheese were, of course, a result of trade agreements reached to favor the export of U.S. grains at the expense of higher dairy imports and lower dairy exports.

Another factor in the added purchases of dairy products by the government is the cutback in domestic food aid programs. It has been estimated, for example, that the reduction in funds appropriated for the school lunch and special milk programs has had the effect of decreasing milk sales to schools by 15 to 25%. Schools are an important outlet for fluid milk and historically have accounted for 6% of all milk sold in the United States. One bonus from the school milk program is the improved nutrition fostered among school-age children, with youngsters from lower income families benefitting in particular. In addition, by increasing fluid milk sales rather than manufacturing the milk into storable products, government storage costs are avoided.

I agree with Secretary Block's decision not to request legislation for the purpose of cutting the support price at this time. As previously stated, I believe a "wait and see" approach with respect to the dairy situation is the wisest course to follow. Setting aside the small increase in the support price scheduled for October 1, 1982 is also a sound proposal. This action conveys a message to dairy farmers that they cannot expect increases in the support price while government purchases of dairy products continue at record high levels.

Other actions proposed by Secretary Block are also welcome. The plan to increase the use of dairy products in domestic and military feeding programs, and expanded efforts to distribute or sell these products abroad, will be helpful toward reducing the burden of storing surplus dairy products. Raising the standards for fluid milk products would enhance their quality and acceptance and, at the same time, provide a market for an estimated 300 to 400 million pounds of non-fat dry milk each year.

I wholeheartedly support Secretary Block's proposal for a more comprehensive research and promotion program involving all dairy farmers across the country. In New York we have a successful statewide dairy promotion program, with our dairy farmers now contributing $9 million annually to promote the sale of milk and dairy products. A continuing evaluation of this program has demonstrated that milk sales can be enhanced and that product promotion is a profitable investment for dairy farmers. I am convinced that a national promotion effort supported by all dairy farmers could strengthen the market for milk and dairy products. The establishment of a Dairy Advisory Board should be helpful to the Secretary in guiding him toward practical and sound program decisions.

There are a number of reasons why I am optimistic that over the next few months the dairy situation will begin to show some improvement. Basically, these relate to indications of a slackening in milk production, recent strengthening of dairy product sales and the projected improvement in the national economy during the last half of 1982 and into 1983.

Already dairy farmers seem to be responding to the lower milk prices of the last few months and the prospect that over the next three years, milk prices may not increase or could even fall below current levels. In New York State, for example, estimated milk production for the first four months of 1982 declined slightly from a year earlier. Our records of actual marketings of milk from New York farms indicate that production began to turn down in the last quarter of 1981 and this has continued into 1982. At this point we think it is entirely possible that these recent declines in milk production in New York will accelerate during the balance of the year.

Similar adjustments appear to be developing in other milk production areas of the country. We know the year-to-year estimated increase in U.S. milk production during the first quarter of 1982 was less than during the last quarter of 1981. In March, the last month for which milk production data are available by state, output was only one percent above the same month a year earlier. Market order receipts and other indications of production nationally suggest that output in April was unchanged or only slightly above a year ago.

On the demand side, there is encouraging evidence that commercial sales of dairy products are picking up. One reason, of course, is that recent increases in the retail prices of most dairy products have been small relative to the price of other foods. The strengthening in sales began to show up in 1981 so that for the year commercial use of dairy products was one percent higher than in 1980. During the first quarter of 1982, retail sales of all milk and dairy products gained 3% from the same period of 1981. With a continuation of stable prices for dairy products and the expected improvement in general economic conditions later this year, commercial sales should remain strong.

As milk production levels off or even declines slightly during the next few months and commercial sales of dairy products increase, the rate of government purchases should moderate. Recent actions and proposals by Secretary Block to make better use of government-held dairy products should further relieve the burden of those stocks.

The point I would like to stress is that the dairy price support program has served the industry and the nation well over the last three decades. It was established to help provide income assurance and stability to our domestic dairy industry. It has effectively worked to moderate swings in milk production and prices which would have been detrimental not only to the farm economy, but to consumers as well. The combination of inflexible price adjustments and adverse economic conditions which distorted the effect of the program during the past two years are by no means a justification for discarding it.

Now is the time for government to exercise some restraint and patience with the dairy situation. Given reasonable time, dairy farmers will make rational decisions in line with economic incentives and will adjust their production to the marketplace. A very drastic downward push on farm milk prices could ruin many of our young and highly efficient commercial dairymen and thereby jeopardize a viable and adequate production capability for the future. For this and other practical considerations, I would argue against granting the Secretary of Agriculture unlimited discretion in setting the support price for milk. A reasonable minimum level of support is necessary to give dairy farmers confidence in the future of their industry. I am recommending to you that the minimum target level should not be allowed to drop below the $13.10 per hundredweight first set on October 1, 1980.

However, if it is your judgment that the Secretary needs some flexibility to reduce the price support level, I would strongly advocate a modification to this approach which would be to establish a floor under fluid milk prices at current levels while allowing manufacturing milk prices to adjust downward in response to a lower support price. This proposal has some distinct advantages over an across-the-board reduction in farm milk prices. An overall drop in prices would perpetuate existing regional disparities in surplus milk production, tend to jeopardize the adequacy of local supplies for fluid use, and lead to inefficient and uneconomical movements of milk over long distances. In contrast, the plan I am recommending would be more effective in lowering surplus milk production and government expenditures on dairy products while maintaining adequate supplies of milk for fluid markets and increasing commercial sales.

The rationale for maintaining fluid milk prices is quite straightforward. In markets where little excess milk is currently produced, an overall reduction in price to dairy farmers would have the effect of creating shortages of milk for fluid needs. This, in turn, would lead to uneconomic hauling of milk from distant areas, relocation of production resources, and poorer quality milk reaching consumers. Keeping a floor under fluid milk prices would avoid these problems and dislocations.

By targeting any reduction in the support price on manufacturing milk, the impact would be most telling on that segment of the industry where the surplus problem is centered. Thus, over a period of time, it would lower surplus milk production more significantly than an across-the-board price adjustment and result in less dairy product purchases by the government. At the same time, commercial sales of dairy products would be boosted. That is because consumers are more responsive to a lowering of retail prices of manufactured dairy products, such as cheese, butter and ice cream, than they are to a price adjustment on fluid milk. In other words, consumer demand for manufactured milk products is considerably more price elastic than for fluid milk. By channeling any price adjustment to manufacturing milk, more product would be sold commercially for a given loss in dairy farm income.

Another argument in favor of a price floor on fluid milk is that the differential between manufacturing and fluid milk prices has greatly narrowed since 1960. The average fluid milk price in the United States in 1960 was 44% higher than the manufacturing milk price, but in 1981 it was only 9% higher. This is further reflected in the fact that manufacturing milk prices currently are at a higher level of parity than the farm price for all milk. A floor under fluid milk prices would be an equitable means of correcting this relationship and, as stated earlier, to maintain continuing adequate milk supplies in local fluid markets.

In summary, I would emphasize my firm belief in the basic soundness of the present dairy price support program and feel confident we will experience the needed adjustment in the national milk supply balance as the dairy industry continues to respond to the dairy provisions of the 1981 Farm Bill. Furthermore, I strongly suggest that before any proposed change in the direction of national dairy policy be adopted and before any downward adjustment in support prices be made, a mechanism to floor fluid milk prices at their current levels be established.

I wish to thank the Subcommittee for the opportunity to testify on this very important agricultural program for New York and the Northeast.

STATEMENT OF JAY GOOLD, EXECUTIVE VICE PRESIDENT, LEAGUE OF CALIFORNIA MILK PRODUCERS

Mr. Chairman and Members of the Committee, my name is Jay Goold, Executive Vice President of the League of California Milk Producers. The League is a trade association representing 1,181 dairymen, or approximately half of California's production. These dairies are all family farms. The largest milks about 6,000 cows and, I am told, hires 72 family members in their total operation. Many of our members milk around 150 cows with the family providing all the labor. We average 316 cows per dairy.

We are aware of the comments made about California's production and subsequent contribution to the surplus problem. Therefore, I would like to make some useful comparisons to show how much we are all involved in the problem.

State	Production (millions of pounds)	Population (thousands)	Production per person (pounds)
Wisconsin	22,298	4,705	4,739
California	13,572	23,669	573
New York	10,956	17,557	624
Minnesota	9,535	4,077	2,339
Pennsylvania	8,496	11,867	716
Idaho	1,934	944	2,049
Utah	1,027	1,461	703

Milk promotion specialists in California indicate that per capita consumption in California for 1980 was 685 pounds, while the national milk equivalent consumption averages 598 pounds.

These figures show that Californians consume more dairy products than they produce. The reasons are somewhat of a complex historical background, but we are rapidly moving in the direction of a proper manufacturing and marketing mix for our own production. Therefore, it is obvious that other milk production states are selling their products in the California market. We conclude that all producers are in the same situation.

Because of the unique geographic shape of California and the distribution its processing plants, we are also very much aware of the cost of moving milk long distances. We are keenly aware of competitive marketing conditions which rapidly develop if the difference between what I can get for my milk at home plus transportation is still less than what I can get for it in a neighboring market. There will exist economic incentives for producers or groups of producers to "make deals" which will totally undermine the very stability we are so desperately trying to maintain.

We, therefore, have concluded that in the long run all producers must be treated relatively equally. This is especially true in areas where producers receive marketwide blend prices. We are concerned about concepts that would establish domino marketing conditions.

We are also concerned about marketing concepts that would prevent us from following through with our intentions to become a self sufficient state. We will cooperate with viable programs to get production back in line but would oppose plans which could become historically locked in and prevent the accomplishment of our goal.

In the past several months, the dairy support price has continued to decrease as a percent of parity. Because of the manufacturing margins granted in our state order, producers in California are now receiving less than the support price or M-W price for the lowest class of milk. Our producers have also seen significant increases in hay and grain prices. Were it not for tremendous per cow production efficiencies in California, some herds reaching twice that of the national average, these cost increases would now be significant. However, within another 60 days, our production will peak seasonally and, as a result, the cost of production per hundredweight of milk will move upward. Many producers anticipate, with a continuing of the current price for several more months, production will begin to decline.

While supporting some of the concepts proposed by the Secretary of Agriculture, we strongly oppose the expansion of his discretionary powers as he is presently seeking.

This background information is useful. However, I would appreciate a few minutes more to explain a very positive marketing program which we have had for more than 15 years in California. I am referring to the high component standards for fluid milk. We sell only three categories of fluid milk: whole (3.5–8.7/12–2), lowfat (2–10), and nonfat (.25–9.0). This is in contrast to FDA standards which not only establish lower standards but also allow for a wide range of milk products to be labeled lowfat.

We have prepared some matrial which we have been distributing throughout the country and would like to bring some of the significant points to your attention.

California producers, processors, and consumers have been gladly paying the small amount necessary to afford them the protection through inspection and enforcement of these consistent, year-round, high quality standards. We note with extreme interest a recent publication of Consumer Report, July, 1982. While there are points we strongly disagree with, we do recognize the validity of their request for higher product standards. As Mr. Harry Snyder acknowledged before the House Dairy Sub-Committee on July 9, 1982, California consumers have sincerely appreciated for the past 15 years the high quality standards we now propose for the nation.

Therefore, Mr. Chairman, it is our conclusion, with the help of the U.S. Senate, we could implement these proven standards and have a continuing, significant impact upon the amount of dairy products available for government purchase under the support program.

PROJECT/SUBJECT: NATIONAL FLUID MILK STANDARDS

Problem: There is currently too much accumulation of dairy products, including nonfact dry milk, by the federal government through the support program purchases. There is limited commercial market for nonfat dry milk. Minimum product standards which are set too low demoralize sales by undermining quality and consumer acceptance.

Goal: To involve the dairy industry in a positive program to help solve the problem. To reduce government expenditures for milk product purchases. To improve the quality of the milk choice available to the consumer. To provide the consumer with standard alternatives. To prevent further deteriorations of consumption based on poor quality and confusion. To conserve millions of dollars in energy use!

Objective: With the support of the producer industry and others, improve the minimum standards for milk.

	Butterfat	Solids-not-fat
From:		
Whole milk	3.25	8.25
Lowfat	.5–2.0	8.25
Nonfat	0–.5	8.25
To:		
Whole milk	3.5	8.7
Lowfat	2.0	10.0
Nonfat	.25	9.0

Support: California has successfully marketed milk with these standards for the past 20 years. Independent research indicates that consumers can detect changes of this magnitude and prefer the higher total solids product.

These same standards in 1980 resulted in California consumers using 46,040,000 lbs. of SNF (dry milk) that otherwise would have been available to the CCC for government purchase and storage (the purchase price alone would have been $41,133,100). The 1981 usage was 48,380,000 lbs. At current prices, this saved the U.S. Government $45,547,006 plus storage costs.

California represents only 11.37 percent of the fluid milk market in the United States.

ANNUAL PER CAPITA SALES OF FLUID WHOLE, LOWFAT, AND SKIM MILK PRODUCTS
FEDERAL MILK ORDER MARKETS AND CALIFORNIA (pounds)

	Whole		Lowfat		Skim		Total	
	F.O.	Calif.	F.O.	Calif.	F.O.	Calif.	F.O.	Calif.
1971	173.9	201.2	36.8	39.7	10.0	15.3	220.7	256.2
1972	173.8	202.8	40.8	46.2	11.4	16.7	226.0	265.7
1973	167.7	198.3	44.3	50.7	13.0	17.2	225.0	266.2
1974	157.1	190.2	48.0	57.5	13.0	18.0	218.1	265.7
1975	154.4	184.6	56.4	63.6	10.1	18.8	220.8	267.0
1976	145.1	184.0	58.4	69.5	10.0	18.6	213.5	272.1
1977	147.3	178.4	70.0	75.3	10.7	18.6	228.0	272.3
1978	143.5	174.3	74.1	78.3	10.5	17.8	228.0	270.3
1979	139.7	169.3	77.9	81.9	11.0	17.1	228.7	268.2
1980	122.1	155.2	74.6	83.4	10.2	16.3	206.9	254.9
1971-80 % Change	-29.8	-22.9	+102.7	+110.1	+2.0	+6.5	-6.3	-.5
% of Total Sales								
1971	78.8	78.5	16.7	15.5	4.5	6.0		
1980	59.0	60.9	36.1	32.7	4.9	6.4		

Population figures source: Federal Milk Order Market Statistics, 1980 Annual Summary, Table 2, USDA Agricultural Marketing Service and California Dairy Industry Statistics, 1980, Table 62, California Dept. of Food & Agriculture

PACKAGED SALES OF INDIVIDUAL WHOLE MILK PRODUCTS AND LOWFAT AND SKIM MILK PRODUCTS IN MARKETING AREAS DEFINED BY FEDERAL MILK ORDERS FOR MARKETS WHERE COMPARABLE DATA ARE AVAILABLE
DAILY AVERAGE (1,000 lbs.)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Whole Milk	65,542.3	65,016.8	62,171.6	58,426.9	58,603.1	56,794.2	57,977.8	56,638.9	55,336.7	53,235.5
Flavored Whole Milk	2,567.9	2,868.8	2,824.6	2,512.6	2,493.9	2,453.1	2,585.2	2,383.0	2,140.5	1,807.7
Total Whole Milk	68,110.2	67,885.6	64,996.2	60,939.5	61,097.0	59,247.3	60,563.0	59,021.9	57,477.2	55,043.2
2% [redacted] Lowfat	[redacted]	5,344.9	7,026.5	9,435.2	12,420.3	15,088.0	14,930.1	16,088.8	17,888.8	[redacted]
2% Lowfat-Milk Solids [redacted]	10,067.2	10,581.8	10,154.0	9,161.2	9,894.1	8,771.7	5,032.6	5,140.3	4,668.5	4,590.2
1% Plain Lowfat							2,503.6	3,311.2	4,054.2	4,854.1
1% Lowfat-Milk Solids Added							3,697.8	3,197.3	2,642.5	2,112.6
Flavored Lowfat & Skim Milk Products							2,630.4	2,721.4	2,797.0	2,952.7
Total Lowfat Milk	14,393.1	15,926.7	17,180.5	18,596.4	22,314.4	23,859.7	28,794.5	30,459.0	32,051.0	33,645.4
Skim Milk-Plain	1,093.7	1,119.2	1,480.8	1,735.1	1,660.7	1,836.0	2,074.5	2,296.7	2,758.9	3,068.9
Skim Milk-Milk Solids Added	2,827.9	3,326.9	3,544.0	3,290.3	2,324.4	2,242.8	2,325.5	2,015.1	1,763.8	1,553.0
Total Skim Milk	3,921.6	4,446.1	5,024.8	5,025.4	3,985.1	4,078.8	4,400.0	4,311.8	4,522.7	4,621.9
Total Fluid Sales	86,424.9	88,258.4	87,201.5	84,561.3	87,396.5	87,185.8	93,757.5	93,792.7	94,050.9	93,310.5

Source: Federal Milk Order Market Statistics - Annual Summary
U.S.D.A. Agricultural Marketing Service

SNF USED FOR CLASS 1 FORTIFICATION
per C2400 (Milk Pooling Report)
California Department of Food & Agriculture
Bureau of Milk Pooling

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
	- - -	- - -	- - -	- - -	- Millions	of lbs.-	- - -	- - -	- - -	- - -	- - -
Jan	1.68	2.01	2.39	2.35	2.68	2.67	2.93	3.16	3.33	3.70	3.96
Feb	1.55	2.00	2.19	2.14	2.36	2.71	2.75	2.97	2.96	3.62	3.55
Mar	1.79	2.28	2.38	2.35	2.47	2.91	3.25	3.32	3.40	3.64	4.02
Apr	1.86	2.16	2.33	2.29	2.43	2.85	3.14	3.18	3.31	3.70	3.87
May	1.87	2.35	2.41	2.34	2.58	2.87	3.34	3.50	3.65	3.93	3.90
Jun	1.86	2.23	2.43	2.29	2.57	2.87	3.31	3.56	3.49	3.58	4.20
Jul	1.85	2.22	2.55	2.39	2.78	2.90	3.25	3.54	3.62	3.80	4.32
Aug	1.98	2.38	2.61	2.64	2.65	3.04	3.53	3.62	3.90	3.90	4.15
Sep	2.00	2.32	2.44	2.64	2.82	3.27	3.60	3.62	3.70	4.39	4.39
Oct	2.10	2.48	2.62	2.70	2.83	3.20	3.53	3.77	4.14	4.31	4.18
Nov	2.04	2.47	2.39	2.47	2.58	3.12	3.26	3.45	3.62	3.71	3.99
Dec	2.07	2.35	2.17	2.33	2.64	2.97	3.15	3.12	3.46	3.76	3.85
Year	22.65	27.25	28.91	28.93	31.39	35.38	39.04	40.81	42.58	46.04	48.38

% Change 1971-1981 +113.60

Percent of Butterfat & Solids-not-fat
Produced in California & the United States

	California		United States	
	BF	SNF	BF	SNF
1971	3.59	8.75	3.66	8.60
1972	3.58	8.74	3.68	8.62
1973	3.60	8.74	3.66	8.61
1974	3.60	8.70	3.67	8.61
1975	3.63	8.70	3.67	8.61
1976	3.59	8.69	3.66	8.59
1977	3.57	8.67	3.65	8.60
1978	3.61	8.67	3.67	8.60
1979	3.54	8.67	3.66	8.60
1980	3.60	8.71	3.65	8.59
Avg.	3.59	8.70	3.66	8.60

California's influence on the U.S. figure is +.01 for fat and -.01 for SNF.

Sales of Whole, Lowfat, Skim & Flavored Milk
(1,000 lbs.)

	U.S.	California	%
1971	52,099,020	5,203,206	9.99
1972	53,140,167	5,451,119	10.26
1973	53,031,747	5,519.170	10.41
1974	51,739,672	5,547,748	10.72
1975	53,278,461	5,638,074	10.58
1976	53,209,928	5,855,155	11.00
1977	53,036,752	5,962,999	11.24
1978	53,153,021	6,027,577	11.34
1979	53,033,356	6,087,140	11.48
1980	52,934,431	6,019,699	11.37
Population Increase			
1971-1981	9.85%	16.33%	

These figures show from a direct extrapolation that for 1980, California represented 11.37% of the U.S. market and used 46,040,000 lbs. of SNF to meet standards equal to the proposed national standards.

Therefore, with the differences between milk as it comes from the farm being relatively insignificant and there being no recognizable different incentives regarding milk usage, it can easily be projected that national usage of SNF to meet the proposed standards would be as follows:

11.37% = 46,040,000 lbs. SNF = .5 billion lbs. milk equivalent
88.63% = 358,885,200 lbs. SNF = 4.2 billion lbs. milk equivalent

100% = 404,925,200 lbs. SNF = 4.7 billion lbs. milk equivalent

1980 USDA purchases - 8.8 billion lbs. milk equivalent.

STATEMENT OF PAUL A. STONE, DAIRY FARMER, ORWELL, VT.

I am Paul Stone. My wife, Frances, and I as partners, together with our four children own and operate Stonewood Farm, a 70 cow dairy farm in Orwell, Vermont.

Thank you very much for the opportunity to share my views on how we might correct the current overproduction of milk.

....

PRODUCTION LIMITATIONS CAN SOLVE THE PROBLEM

Dairymen have drastically overproduced milk in the past few years and the projection is that we will overproduce by at least 10% again in 1982. Dairymen know that something must be done to cut milk production and milk price support costs. The question is what adjustments can be made to reduce government cost and at the same time be fair to dairymen?

Currently several corrective proposals have been offered to Congress. When analysed these proposals can be classified as either:

1. a limit on individual farmer's sales of milk supported at a fair price using a base system, or

2. a reduction of the price support level of milk, which is the Administration's current position.

Of these two options I support the concept of a temporary limitation (1 to 3 years) of individual farmer's production until we are back in a balanced supply and demand situation. Production control or limitation could be achieved by assigning all dairymen a base amount of milk they could sell. The dairyman's base could be determined by the average of his past several years of production, which could be increased or decreased if necessary depending on the demand. He would be paid a reasonable and fair price for his base amount of milk - say at the rate of 70% of parity which is estimated to be $13.79 per cwt. in Fall 1982, and penalized for sales above his base by being paid a very low amount - say $2.00 per cwt. The total of these individual bases nationwide would be equal to the milk used in the U.S. annually, plus government needs, and an amount for a safety factor.

A production limitation program would be considerably less expensive to the government to put in place and administer than the two plus billion dollars currently projected to be spent on the 1982 dairy price support program.

A temporary system to limit production using bases could be put in place using existing governmental and non-governmental organizations. This could be accomplished without a great deal of expense or added bureaucracy. Government agencies could be the USDA, ASCS (Agricultural Stabilization and Conservation Service), Federal Milk Market Orders, etc. The non-governmental agencies could be milk marketing co-ops, independent milk handlers and others who buy and sell milk.

For the most part, milk producers sell to only one co-op or milk handler, so production records are readily available. It would be easy to ascertain from these records individual farmer's production to assign him a base. Compliance by farmers could be overseen by the co-ops and handlers in turn overseen by the USDA. Considering the fact that the base plan is to be temporary, and that farmers are an honest lot, I don't feel that enforcing a base system would be a big problem.

Government Policy Caused Overproduction

The dairy price support program enacted by Congress in 1949 worked well until 1977. Supply and demand were in balance during those years most of the time and never as seriously out of balance as they are today. During this period the price support was held at 75% of parity. However, the 1977 farm bill increased it to 80%. This increase, together with several other factors, suddenly made dairying increasingly profitable. Dairymen took advantage of the situation and increased production just as one would expect.

The basic cause of the problem we face today comes from the government's policy of not limiting the amount of milk products it will purchase to support the farmer's price. Most other, if not all, government farm price support programs have some sort of limit on production or attempt to limit production.

In effect then, the government policy of supporting milk prices at 80% of parity together with no limit on government purchases has caused the current surplus situation. Clearly farmers are not at fault. Therefore, any correction put in place should not be accomplished at the farmers' expense.

The administration has offered a plan designed to force financially stressed, young, beginning, and overextended farmers out of business. Is it fair for the government to establish a policy that stimulates production, and then to make an about face and force dairymen out of business? Do we really support a policy of only the rich survive and the rest lose out?

What we need today is a temporary production limitation program that will treat all dairymen equally and fairly. A production limitation program should correct the problem within one to three years, at which time we could reinstate the initial price support program that worked until 1977. Some modification of this program might be in order to make it more responsive to the supply-demand situation.

Production Limitation Potentially Increases Net Income

For a comparison of a production limitation plan and the Administration's plan I have put together the following table.* This assumes that the production limitation plan would reduce my milk sales by 10%, and that I would have to increase milk sales by at least 10% to spread fixed cost under the Administration's plan.

In the final analysis, my net income will be increased by $895.00 under a production limitation plan if the price is supported at 70% of parity. Net income would be reduced by $8812.00 under the Administration's plan to reduce support to $12.00 cwt. in Jan. 1983. If I did not increase production by 10% under the Administration's plan, my net income would be reduced $15,015.00.

Now it seems to me that most farmers would be in a similar situation, and that the production limitation plan is the fairest correction to our oversupply of milk.

*The table follows:

Effects of Three Dairy Programs
on
Income and Expenses of Stonewood Farm

	Suggested Programs for 1983[1]		
	Current Law	Base Plan	Administration $1.10 price cut
Change in production	-	-10%	+10%
lbs. milk sold/yr.	1,365,000	1,228,500	1,501,500
Production per cow[2] lbs.	19,500	20,139	19,006
No. cows needed	70	61	79
Blend price of milk dollars per cwt[3]	13.90	14.60	12.80
Gross milk sales $	189,735	179,361	192,192
Additional income sell extra forage $	-	2,700	-
Change in gross income $ compared to current law	-	-7,674	+2,457
Changes in Expenses[4] $	none		
purchased grain		-5,260	+5,260
milk hauling		-1,392	+1,392
vet		-657	+657
interest change buy or sale 9 cows		-1,260	+1,260
purchased forage		-	+2,700
Total change		-8,569	+11,269
SUMMARY - compared to current law	-		
INCOME		-7,674	+2,457
EXPENSES		-8,569	+11,269
NET EFFECT			
increase to net farm income	-	+895	
reduction of net farm income	-		-8,812

Note: If I maintain current production, and support level is cut to $12/cwt my net income would drop $15,015.00

Footnotes to table follow on next page.

Footnotes to Table

1. Assumes a production limitation (base) plan would cut production 10%, and that we would need to increase production at least 10% to spread fixed costs under Administration plan.

2. Production per cow would increase under base plan because we would sell low producers. Production per cow would decrease under Administration plan because we could not afford to buy the best cows.

3. These are blend price estimates:
$13.90 our current price is $.80 above the current $13.10 support level.
$14.60 is $.80 above $13.80, which is estimated to be 70% of parity for the fall of 1982.
$12.80 is $.80 above the $12.00 support level the administration wants to reduce to.

4. These are only the largest expenses directly related to the number of cows in the herd.

....

A Temporary Production Control Plan Will Work.

Whatever plan evolves must meet at least three basic criteria: 1. the plan must work, 2. it must be politically acceptable, and 3. it must be supported by dairymen. Production controls meet the above criteria as the following discussion will show.

1. Will production control work? The answer is yes. Production or marketing controls are already used successfully for many vegetables and fruits, especially on the West Coast. Canada has been able to control milk supply to meet the demand while keeping surpluses to a minimum for twelve years.

2. Are they politically acceptable? My feeling is that they are. A production limitation plan would affect all dairymen equally no matter where located. Therefore all regions of the U.S. would be treated equally, and not unequally, as in some plans now being offered to Congress. This is politically important since widespread support will be required of any plan.

3. Will dairymen support controls? Dairymen more and more favor a production control plan. At a meeting sponsored by the Vermont Addison County Farm Bureau, April 17, 1982, thirty dairymen indicated they would support a base plan to limit production. Vermont's Governor Snelling held a Dairy Summit Conference, April 14, 1982, and a poll of dairymen present indicated that eight favored price cuts and twenty-one a base plan.

American Milk Producers Inc. (AMPI), a co-op with 32,000 dairy farmer members, held its annual meeting March 27, 1982 in Milwaukee. The 600 delegates voted unanimously to back a base plan.

The Wisconsin Farm Bureau directors have voted not to back the American Farm Bureau price cut plan, but rather to back a base plan being promoted by Wisconsin Representative Gunderson.

It seems to me that the time has come to seriously consider a production limitation plan since the idea is rapidly gaining popularity.

Following are additional favorable agruments:

1. Production controls will work. They will reduce overproduction at no great cost to the government, the consumer, or the farmer.

2. Lorne Hurd, general manager of the Ontario Milk Marketing Board, reported at the recent AMPI annual meeting that "supply management is a basic business practice - without it, an industry is plagued with undersupply or oversupply." In Canada, manufacturing milk within a farmer's quota is now selling for about $15.24 per cwt. Excess production over a farmer's base brings a much lower price.

3. Production or marketing controls are used extensively by industry in the U.S. Each industry has developed techniques to control production. Production limits are commonly used by manufacturers to prevent flooding of markets. GM and Levi Strauss will readily cut production to prevent a price reducing surplus of product.

4. Throughout history, farmers have taken their place at the low end of society. They have been expected to make sacrifices, work harder, invest more, expect less, and survive on the "good life". The unwritten, but well known "cheap food policy" prevailing since the '20's is now a political football controlled by the 97% who do not live on farms. Perhaps if we can put in place a workable production control program we can turn things around and get into the driver's seat.

Actually this "cheap food policy" is not unwritten. The USDA publication Agricultural-Food Policy Review AFPR-4, April 1981 yields the following,

"During the '70's, three export embargoes were imposed by the U.S. in times of severe short supplies. The objectives of these export embargoes were to halt inflationary price increases to consumers....the embargoes were successful in damping U.S. farm price increases...."

5. Production controls will not significantly affect the consumers' price of milk. And even if the price of milk in the store did increase slightly, would that be so wrong? We in the U.S. have one of the, if not the, least expensive and most adequate food supplies in the world. We spend only 14% of our disposable income for food as compared to 35% for U.S.S.R., 19% for France, and 50% for India.

There is nothing wrong with farmers making some profit for labor, management, and an adequate return on investment. But, they will never do it as long as they overproduce.

6. Dairy farmers should not be subjected to the instability, financial loss, and general chaos caused by price reductions to clear warehouses. It's not logical to penalize farmers for something they do well. This is a national problem. A national solution should benefit all parties concerned. Production control will do this.

7. Production controls will give a dairy farmer a clear goal by which he can plan and conduct his business. If he has a certain amount of milk he can sell, and knows within certain limits what the price will be, he can then get on with the job, producing as efficiently as possible.

Agruments Against Price Cut Proposals

The Administration has offered a solution to the current overproduction problem. They want to forgo the price support increase of 15¢ per cwt of milk scheduled to go into effect in

October of 1982, and also have the authority to cut supports to whatever level is necessary to get rid of the surplus. Their estimate now is to drop price supports from $13.10 to $12.00 per cwt. in January of 1983.

I feel this is a cruel and unjust solution to a problem caused, not by dairy farmers, but by politics, and the failure of the government to correct the problem earlier.

I also feel that the situation is being blown out of perspective when the CCC total acquisitions for 1982 are estimated to cost 15 billion dollars, and that feed grains and wheat account for 9 billion of that, and milk purchases only 2.6 billion or 18% of the total. Further, annual storage costs for grain amount to 650 million dollars and for milk only 45 million. Now, if the Administration is so bent on reducing government costs they better take a look at the total agricultural situation and not single out dairymen as they have done. Dairymen, I am sure will do their share to correct a bad situation, but they are not willing to do it alone.

A farm price cut does not insure that overproduction will be corrected. Farmers do not react to price cuts or an oversupply situation as does business or industry. For instance, when oversupply of construction equipment exists, Caterpillar can lay off labor and cut supply purchases and thereby reduce costs 85% and easily wait for the oversupply situation to balance out. Because farmers are dealing with biology - growing or producing plants and animals, they cannot simply start or stop at the flip of a switch. They react differently to an oversupply and the related price decrease situation. Their only choice is to produce more, to spread fixed costs, and hopefully at the same time maintain net income.

Many say just cut prices, let the strongest farmers survive and they will be in good shape at the end. This is a very negative idea. First of all, I want to do more than survive and I think other farmers agree. To survive or subsist is not what I look forward to. Knowing that I will have to work harder than I already do, if that is possible, enjoy less and hope for less, is not appealing. Farmers already work hard enough and take enough financial risks to fulfill their share of what society can justifiably expect. Now is not the time to increase the commitment. These are times when farmers should ask for, and get a better way, of dealing with overproduction.

Severe price cuts will force many farmers out of business quickly. Grain farmers are already in trouble - prices of land, grain, cows, beef, and used equipment are all depressed. Anyone selling out at such a time would more than likely suffer a severe loss.

SUMMARY

Today we have a 10% oversupply of milk caused by a faulty government policy and not by farmers.

Farmers should not have to bear the brunt of the correction of the problem.

A production limitation plan is a positive measure that decreases milk production, decreases the government's cost, and is fair to all farmers.

Price cut plans are negative measures that can in fact encourage increased milk production, and cause undo and great hardship to farmers.

I strongly support a production limitation program, and I urge Congress to take rapid and positive action on this matter.

[The following material was inserted by Donald Randall, National Independent Dairy Foods Association, see p. 109 for Mr. Randall's oral presentation.]

ANALYSIS OF DAIRY LEGISLATION—JUNE 1982

Certain radical proposals are now before Congress described as farmer-self-help proposals under a number of promotional titles:

(1) S. 2587—"Dairy Stabilization Act of 1982" introduced by Senator Boschwitz; and the House version, H.R. 6313—"Dairy Stabilization Act of 1982" introduced by Representative Harkin on behalf of the National Milk Producers Federation.

(2) H.R. 6314—"Dairy Products Promotion Act of 1982" by Representative Harkin for National Milk Producers Federation.

(3) H.R. 5869—"Milk Marketing Promotion Act of 1982" introduced by Representative Jeffords.

(4) H.R. 6067—"Milk Marketing Improvement Act of 1982" introduced by Representative Gunderson.

These proposals are a major deviation from the principles of the American free enterprise system and could be categorized as a type of economic class legislation.

For example: S. 2587 in Section 6 (H.R. 6313 in Section 5) would create a National Dairy Board of 15 members plus the Secretary, appointed by the President with advice and consent of the Senate. But such appointments can be made only from nominees selected by the Secretary of USDA, from persons submitted by certified farmer cooperatives. The certification criteria are (1) the geographic size; (2) the number of active milk producer members; (3) the permanency of the co-op; (4) sources of its funds; and (5) the organization's functions.

This bill would give large regional dairy cooperatives domination and control over the Board. There is no effective provision for membership from small co-op representatives or independent producers, and no representatives of independent dairy processors, manufacturers, local or national food processors, or retail chains, or consumers.

Excessive power and control would be granted to a large producer co-op dominated Board.

Section 2(B) gives the Board unrestricted power to determine the level of price supports on excess production;

Section 4 gives the Board unrestricted power to pay incentives for reduced production. Dairy farmers are restricted to a Fiscal 1982 marketing base;

Section 8A gives the Board the unrestricted power to determine the amount of milk which is excess and to which the support price applies;

Section 8B gives the Board the power to "determine the producer responsibility for dairy product purchases;"

Section 8C gives the Board power to set price to farmers for excess milk;

Section 8D gives the Board power to set "the level of price support for that portion of the national milk supply determine (by the Board) excess to domestic commercial market needs;"

Section 8E gives the Board unrestricted power to dispose of CCC surplus dairy products, including (8E(3)) sales to foreign trade.

This legislation would assure a continuing five billion pounds surplus and a price support of not less than $13.10 per cwt. This price increases to the percentage of parity that $13.10 represented on October 1, 1982, by fiscal years 1984 and 1985. This legislation simply continues the huge CCC acquisition of surplus dairy products.

H.R. 5869 provides for a referendum of daily farmers in Section 5(a) which will establish a production base system to be implemented by the Secretary.

Section 6(b)(2) provides for an individual farmer marketing base which is calculated and assigned to each farmer who wants to continue marketing milk. His base is determined by his production, and other marketing trends in his State and county. The base's system to be designed by the Secretary is a vague, excessive grant of authority which can lead to abuses and economic hardship.

Section 6(3)(A) would allow the Secretary to prevent new producers from entering the market, and to dictate the amount of production of any new producer 6(3)(B).

Section 6(4)(d)(1) requires a producer assessment payment for excess production, which the Secretary can waive for hardship, 5(4)(d)(2);

Section 7 places a burden on all handlers for collecting and remitting assessments under penalty;

Section 12 sets forth criminal penalties for failure to pay, collect, or remit assessments and fees;

Section 13 creates a Federal Milk Board with power to raise a promotion fee of 5 cents per cwt from all dairy farmers to be spent on promotion at the Board's discretion.

Section 14 grants powers to the Board, with the Secretary's approval, "to investigate any matter relating to the production, processing or marketing of milk or any product of milk, including the cost of such production, processing, or marketing, * * *." This is excessive authority which can be abused.

Section 15 provides for power and control vested in producer co-ops who control all nominations of the fifteen members without any input from handlers, processors, manufacturers or consumers.

H.R. 6076 in Section 3(a) requires the Secretary to establish individual dairy farmer milk production bases. These bases are established on the average of the previous three years production of each producer, or for alternate periods for newer producers. This provision, and also Sections 3(a)(2), (3), (4) and (5)(A) are prime examples of legislating excessive government interference and creating needless bureaucratic regulation;

Section 3(b) can keep out new producers and 3(c) provides for restrictive leasing of bases;

Section 4 provides restrictions on assignment of bases and places excessive power and control in State Milk Commissions;

Section 11 establishes a National Dairy Board which is granted excessive power and control over the quantity of milk to be produced nationally each year in Section 5(a)(1) and (2). Also, such power includes the percentage of reduction of the national supply required in Section 5(b);

Section 6(a) gives the Board power to make assessments to purchase surplus and pay expenses of the Board and the various State Commission expenses;

Section 7 places liability for assessments on "any person who produces milk in the United States;"

Section 8 requires handlers to collect and remit assessments and make reports under penalty of law;

Section 13 places control of Board in eight regional nominees of producers or their co-ops with only one of the other four members appointed from processors.

Section 1 of this bill requires support at 70 percent of parity which will increase costs of all milk and dairy products.

H.R. 6314 provides authority for the Secretary to issue "dairy products promotion orders." Any order issued under Section 5 shall establish a thirty-six member National Dairy Promotion Board. This Board will have administrative power over the terms and provisions of the order, and can make rules and regulations to effectuate orders. The Board would receive an excessive authority to investigate and report violations of the order to the Secretary.

Section 5(2) requires that "members of the Board shall be milk producers" appointed by the Secretary only from nominees from certified organizations (co-ops);

Section 5(5) requires assessments of dairy farmers at the rate of five cents per cwt to fund the orders and Board's activities;

Section 7(a) guarantees that the Board will be dominated and controlled by large regional co-ops, by qualifying that only such organizations can be certified to nominate members of the Board;

Section 8 provides for referendums of producers for approvals of orders by at least one-half of the voting producers;

Section 9 provides for termination or suspension by a majority of the producers by referendum.

Section 10 provides for block voting of members by co-op managers, which assures their control over any referendum proceedings. Independent producers would not have such block voting power and would not be able to counterbalance it.

Section 6 sets forth the permissive terms of orders for promoting non-brand milk and dairy products and which will be under the influence of dairy co-op organizations, and which will not promote fluid milk during the first two years;

Section 6(a) requires all handlers and processors to keep books and records, and file reports, all subject to inspection and examination of the co-op dominated Board. This excessive power granted to the Board could result in unrestricted fishing expeditions into the books and records of processors and handlers. Highly sensitive sales records . . . "shall be made available to the Board." This could result in unrestricted access to this information by representatives of the major competitors of proprietary processors, i.e., the co-op processors.

STATEMENT OF JIM NEU, PRESIDENT, NEU CHEESE CO., HARTINGTON, NEBR.

This governing body, along with the House of Representatives, deliberated 9 months ending last December, setting a support price for cheese, butter and non-fat dry milk of $12.80 per 100 lbs. for 3.5 fat test milk ($13.10 for 3.67 fat test) for this year.[1] This is the same price that had been in effect for much of the previous year. Obviously, unknown to you when you set this support price, little did you realize you were setting a price for only 15 percent of the milk produced in the U.S.[2] You were setting a price for manufacturing grade milk that brought an average price, in March, 1982, to manufacturing grade milk producers in the States of Wisconsin and Minnesota of only $12.45 per 100 lbs. for 3.5 test milk.[3] Who, then, sets the price for the other 85 percent of the milk produced in the U.S. if you in Congress do not? The answer is that the Secretary of Agriculture, through the Federal Milk Order System, sets the price for the 85 percent of the milk produced, not you in Congress. The Secretaries of Agriculture of previous administrations have always established the Grade A milk price, the 85 percent of all milk produced in the U.S. This Administration has not changed that philosophy but is now again beseeching you to lower the support price without considering the alternatives available.

The Secretary of Agriculture's Federal Milk Order System sets the price for all Grade A milk and has the authority to raise or lower these prices in order to assure the American milk consumers that an adequate supply of Grade A bottling milk be available for sale and consumption. The Federal Milk Order System has set the Grade A Milk prices so high that, as an example, in March, 1982, only 45 percent of the Grade A milk produced was used as Grade A bottling milk.[4] The balance of all Grade A milk produced, 55 percent, was used to manufacture other dairy products, much of which created the problem of surplus government owned cheese, butter and non-fat dry milk.

The Federal Milk Order System has by regulation established Grade A milk prices so high that the average Grade A milk consumer living in one of the 47 regulated areas surrounding most every larrge city in the U.S., in March, 1982, paid an average of 17¼ cents per gallon of milk consumed (or $2.01 per 100 lbs.) over the support price set by you.[5] This ranges from a high of 27 cents per gallon in Miami, Florida to a low of nearly 10 cents per gallon in Chicago; yet, on average, only 45 percent of the Grade A milk produced was used for Grade A bottled milk.

In addition to the high minimum bottled milk prices demanded by the Federal Milk Order System under control of the Secretary of Agriculture, the Federal Order System has, by regulation, made it virtually impossible for any other form of business enterprise to buy and handle Grade A milk in competition with cooperatives. It is for this reason that over 85 percent of all Grade A milk produced in the U.S. is handled by cooperatives. The Federal Milk Order System has allowed cooperatives exemptions from antitrust monopoly provisions not allowed most other independent American businesses so that the cooperatives can now collectively demand "premiums" from milk bottlers above the Federal Order prices. These "premiums" amounted to an additional 5.7 percent per gallon that the average American milk consumer paid for milk purchased in March, 1982 over the already high Federal Order prices.[6] The Secretary of Agriculture also has the authority to rescind this 5.7 cent premium charged by cooperatives just as he now has the authority to lower Grade A prices to consumers by 17¼ cents per gallon without asking Congressional approval.

The average price the American consumer then paid in March, 1982 for Grade A milk was the 17¼ cents per gallon price set by the Federal Order System over your support price plus the 5.7 cents cooperative "Premium". This 23 cents per gallon over the support price you set is paid despite all the overproduction for which you are now expected to find an answer.

Not only is the consumer paying excessive prices but the dairyman who sells his milk through a cooperative often is being hurt economically by this system. Cooperatives, being owned by the dairy farmer, are not required to return the 23 cents per gallon premium back to the dairyman. They are not even required to pay minimum prices as demanded of private enterprise. Cooperatives are not required to notify their producers what the minimum price is; they, therefore, will lower the prices to their producers in areas where they have no competition and use this money saved to eliminate competition in areas where they do have competition from private enterprise organizations. If left alone with their antitrust exemptions, cooperatives will eventually control all milk in the U.S. They will be in a position to pay even less than they now do because there will be no competition to force up producer prices. They will also be able to charge consumers even more than the 23 cents surcharged to make up for their inefficiency.

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[1] Dairy Market News, Madison, Wisconsin: United States Department of Agriculture, Vol. 45, Report No. 5, p. 10.

[2] 1981 Milk Facts, Washington, D.C. Milk Industry Foundation, pp. 26–27.

[3] Dairy Market News, Madison, Wisconsin: United States Department of Agriculture, Vol. 49, Report No. 14, p. 8.

[4] Dairy Market News, Madison, Wisconsin: United States Department of Agriculture, Vol. 49, Report No. 16, p. 8.

[5] Dairy Market News, Madison, Wisconsin: United States Department of Agriculture, Vol. 49, Report No. 15, p. 11.

[6] Federal Milk Order Market Statistics for January, 1982, Washington, D.C.: U.S. Department of Agriculture, March, 1982, p. 9.

The National Milk Producers' proposal is now asking for even more control of the most regulated industry in the U.S. by asking you for a permanent Federal Government 800 million dollar appropriation to set up base plans. They desire to create another bureaucracy and administrative nightmare trying to keep track of which milk is surplus and what is not surplus, and being sure each producer not served by a huge cooperative receives a proper price. We understand this would also be controlled by the Agricultural Marketing Service, the same U.S. Department of Agriculture arm that oversees the Federal Milk Order System to the benefit of the huge cooperatives.

Truman F. Graf, an agricultural economist from the University of Wisconsin, in July 1981, pointed out in an article in *Hoard's Dairymen* magazine that lowering or eliminating the Federal Milk Order prices to U.S. consumers and eliminating the antitrust exemptions of cooperatives in setting over-order "premiums" in 1980 would have cost U.S. Grade A dairymen nearly 1 billion dollars in 1980.[7] If the Secretary of Agriculture, under authority he already has, were to do so, he could save the U.S. milk consumers nearly 1 billion dollars a year and at the same time, lower the overproduction of Grade A milk and thereby save the U.S. taxpayer the 2 billion dollars we taxpayers are now paying to buy the cheese, butter and non-fat dry milk made from the surplus Grade A overproduction.

This could be done by:

(1) Throw the ball back to the Secretary of Agriculture, who, through his Federal Milk Order System, has authority to lower Grade A milk prices and thereby discourage Grade A overproduction. At the same time he should change the rules of the Federal Milk Order System so as to treat all forms of business equally. Then private enterprise could create competition in the handling of Grade A milk which would force cooperatives to operate efficiently not only for the benefit of consumers but also all dairymen including co-op members.

(2) Suggest to the Secretary of Agriculture that he use the authority he now has under Section 2 of the Capper-Volstead Act—to rescind the antitrust monopoly exemption of cooperatives when they are unduly enhancing "premiums" to bottlers in areas where there is no competition. At the same time he should require cooperatives to pay every producer at least the minimum prices required of private enterprise.[8]

(3) Totally reject any suggestions by the cooperatives' Federal Milk Producers Organization for more cooperative controls of milk producers by cooperatives. Keep in mind the words that Dr. Roland W. Bartlett wrote in the issue of *Illinois Agriculture Economics*, published in January 1972, before the Nixon milk scandals were ever exposed: "Today, the Associated Milk Producers, Inc. (AMPI), has a supply-management proposal that would give each farmer a marketing quota and penalize any production over the quota with a lower price".[9]

I believe that Associated Milk Producers Incorporated (AMPI), today, as the largest member of the National Milk Producers' Federation, and, despite their then General Manager being fined and jailed over the milk scandals of the early 70's, still has the same goals in 1982 as they had in 1972. I fail to see any economic reason for continuing their antitrust exemption when they now control the milk production from over 33,000 producers and collectively, with Mid-America Dairymen and Dairymen, Inc., have over 2.5 million dollars to spend on those of your Senators and Congressmen who are runnning for reelection.

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[7] "Milk Order Deregulation Would Cost You $8,700 Annually". Truman F. Graf, *Hoards Dairymen*, July 10, 1981, p. 925.

[8] "Federal Milk Regulations—A Time for Administrative Reform". Carlyle C. Ring Jr., Administrative Law Review, Vol. 31, No. 3, 1979, p. 354.

[9] "Are Federal Milk Orders Operating in the Public Interest?" Roland W. Bartlett, Illinois Agriculture Economics, Vol. 12, No. 1, January 1972, p. 5.

In the past 3 weeks, Neu Cheese Company has purchased and processed over 1¼ million lbs. of distress. surplus Grade A milk into cheese, much of which will be sold to our government under the support program. The only reason Neu Cheese Company was offered this surplus Grade A milk from California is that all 57 processing plants, located between Los Angeles, California and Hartington, Nebraska, a distance of 1,870 miles, are full of overproduced Grade A milk. It seems rather ridiculous that the milk consumers of California should pay the high prices they do for Grade A bottling milk to encourage milk production so high that milk producers can afford the $87,000.00 freight bill just to get rid of surplus Grade A milk.

I sincerely hope you consider and adopt my suggestions to end this mockery of justice to both milk consumers, taxpayers and producing dairymen.

STATEMENT OF EDWARD ANDERSEN, MASTER, NATIONAL GRANGE

Mr. Chairman and Members of the Subcommittee:

I am Edward Andersen, Master of the National Grange, with headquarters at 1616 H St., NW, Washington, DC.

The National Grange is a general farm organization with membership in 41 states. Thousands of our members from New England to the west coast are engaged in the dairy industry. Most of our dairy members have small to medium-sized dairy farms with herd size ranging from 30 to several hundred milk cows. They are family dairy enterprises, embracing father-son partnerships, incorporated family dairy farms and sole proprietorships. They do not have large amounts of available capital and for the most part, are heavily financed, depending on the monthly milk check, to meet both their operating costs, servicing their debt and to live.

The Grange, as a general farm organization representing many dairy farmers, has been concerned over the increased cost of the dairy price support program and the mounting surpluses in CCC storage. It was because of that concern that early in 1981, I appointed a National Grange Dairy Committee to study the present dairy program and recommended the direction the Grange should follow in seeking administrative and legislative changes in the dairy price support program. The committee met in early 1981 and the position of the Grange on current legislation pending before this committee are the results of the actions taken by the National Grange Dairy Committee and approved by the National Grange Executive Committee.

The Committee was composed of operating dairy farmers from the various dairying regions of the country. Al Franklin, Battleboro, VT; Kenneth Rheim, Brownsville, WI; Perry Kasel, Nampa, ID, and was chaired by Rodman Myers, Thurmont, MD. The results of this first meeting is attached as Appendix A & B of our statement.

The committee was in complete agreement that the ills which affect other parts of the farm economy are attracting resources into milk production and keeping resources in milk production which, under normal circumstances, would be used for other purposes. Too many heifers are accumulating for lack of alternate market, and cows which should be culled are remaining in the herd. To a very large degree, the problem in agriculture have been accumulating into the dairy industry.

The first reaction has been to cut back on the level of price support. For 30 years, I have heard this simplistic solution to the problem of over-production. Drop the price and squeeze out the inefficient producer we are told. When I first started dairying shortly after World War II, there were approximately 2,400,000 farmers selling milk or cream. We have "squeezed out" about 2,200,000 of these and we now have approximately 200,000 selling milk or cream today. And yet we are now engaged in Congressional hearings to determine if the price support for dairy products should be cut further. I hasten to point out that price supports were not raised in April of 1981 and were cut to $13.10 per hundredweight in the 1981 farm bill and milk production, although slowed for various reasons, continues to increase. Which in our judgment tells us two things - first, that dairying is the most viable alternative to depression level, crop prices and, until recently, low cattle prices; and second, that dairy farmers must continue to produce to meet their cash flow problems. It does not necessarily tell us that the price level is too high. It has been estimated by Bill Knox, editor of Hoards Dairyman magazine, that given the surplus situation, we have to cut the current rate of production. It would take a price drop of from 25 to 40 percent, or a price collapse of from $3.25 to $5.25 per cwt., to solve the surplus problem through the price support route. The impact on a dairy farmer with a 50 cow herd and marketing 600,000 pounds a year would be a drop of about $24,000 in gross income if the price was $4.00 per cwt. No one is proposing a cut in price support of that magnitude, but I believe it illustrates that the answer to the present dairy situation does not entirely lie in lowering the price support level below the present $13.10 per cwt.

I do not want to take up any more of the committee's time reviewing all the reasons for the percent over-production and under-consumption of dairy products. But I would like to point out that the slow down in the national economy and high unemployment has had its effect on the market. Also, the problem of under-consumption has been compounded by the cut-back in the use of milk and milk products in the U.S.D.A. nutritional feeding programs, including the reduction in food stamps.

The National Grange opposed the administration's program when it was first presented in the legislation sent to this committee in early 1981. We opposed the final bill as reported from the Conference Committee and not just because of the dairy price support level, but because it did not address the needs of U.S. agriculture. It was a farm program based on budget figures and not the economic situation facing the nation's producers of food and fiber.

The Grange and the dairy farmers we represent, realized that under the present situation in agriculture and the need to reduce the cost of the dairy price support program that changes had to be made. We accepted that and endorsed the National Milk Producers Federation program of tieing the percent of parity at which the price support would be set to the anticipated government removal of dairy products, through CCC purchases. The Administration rejected that proposal and Congress accepted a cut in price supports, with an annual small escalation in the price support level as a compromise.

Now we are meeting once more to consider further changes in the dairy support program. The Grange agrees that changes in the program are in order, but we also believe for reasons already sighted, that cutting price levels even further will not solve the over-production problem. In addition to the reasons we have already given for the over-production in the dairy industry, there is one more that we believe is important in attracting new resources into dairying, therefore increasing unwanted production.

According to a study conducted by the Economic Research Service, USDA entitled "The Effects of Tax Policy on American Agriculture," the dairy industry, along with other livestock operations, provides opportunities for high bracket tax payers to shelter income. The sheltered income might be professional fees earned by a doctor or a lawyer or it might be income earned on the farm. The competitive advantage flows to the high-bracket tax payer whether the high bracket is built by bulls on Wall Street or bulls in the barnyard. You may have noticed recent ads in the Wall Street Journal offering the leasing of dairy cows as attractive tax shelters. One agency claimed to have over 70,000 head leased to dairy farmers. The University of Delaware conducted a study on the advantages and disadvantages of leasing dairy cows. (A copy of an article appearing in the Maryland Farmer is attached as Exhibit C).

Other tax provisions in the tax code such as investment tax credits on single purpose buildings and equipment and accelerated depreciation allowances have attracted new resources into dairying. We are not passing judgment on changes in tax laws, only pointing out that they have been part of the reason for increased milk production.

EMERGENCY DAIRY ADJUSTMENT ACT OF 1982

The National Grange rejected the administration's proposal to give the Secretary of Agriculture discretionary authority in setting price support levels for milk when it was in the proposed farm legislation in 1981. We reject it today. Not because we believe that the present Secretary of Agriculture will abuse that authority, we don't believe any secretary would, but because when it comes to budget expenditures, the Secretary of Agriculture is not always the master of his own ship. Pressures from within and outside the Department of Agriculture can force decisions on any Secretary of Agriculture that may not be in the long-range best interest of dairy farmers or the consumer. We also do not believe, as we have tried to point out to the committee, that the level of dairy price supports is not alone responsible for the dairy surplus.

The other recommendations of the administration were welcomed and are long overdue. The new programs deviced and the increased emphasis on present programs will be of great assistance in removing the large stocks of dairy products in the hands of the CCC. At the same time it will increase the nutritional level of the diets of our nation's disadvantaged, elderly and handicapped. We are especially pleased with the secretary's order to the Farmers Home Administration (FHA) to establish new guidelines to be used by loan-making officials when making loans to dairy producers.

We have received many reports from our members that local FHA loan officers have refused loans to beginning farmers for specific farm enterprises, only to be told that if they would enter the dairy industry, the loan would be granted. We welcome this change in loan policy and it is the basis for one of the amendments we will be offering later in our statement.

NATIONAL GRANGE DAIRY PROGRAM

The National Grange Dairy Committee, meeting in Washington, D.C. on April 7, 1982, realized that the present dairy program had to be changed to bring supply more in line with demand and to reduce the cost to the U.S. Treasury of the price support program.

The committee considered at length the various base plans, cow culling and other plans being offered as solutions to the present problem facing the dairy industry. It was determined that any program being offered should take into consideration the utilizaion of the mounting surpluses by increasing dairy product promotion and stabilizing milk production through a disincentive for increased production and an incentive for reducing the national surplus.

The Dairy Committee cautioned that care must be taken not to cut production so drastically that demand begins to exceed supply. This would result in a rapid increase in the retail price to consumers and would have numerous adverse impacts. For instance, dramatically higher prices would result in lost customers, increased imports and an increase in the use of imitation dairy products; thus off-setting the benefits of any dairy product promotion program, and not be in the long-range interest of dairy farmers.

The committee continues to express their support for a dairy price support program that will not utilize price as the sole criteria in reducing the current over supply. The support price alone did not create the present surplus, but it is more the result of a depression in the other segments of U.S. agriculture. As long as the milk-feed price ratio is favorable, dairy farmers will continue to keep low producing cows and force feed high producers, thereby adding to the mounting surplus. Increased feed grain and cattle price would not only aid the producers of those commodities, but would have a positive effect on reducing milk production. The committee called on the Secretary of Agriculture to use the discretionary authority provided him in the Food and Agriculture Act of 1981 to increase farmer's income for 1982.

The Dairy Committee generally favored a dairy price support program that would contain provisions to restrain production, such as quotas or a national excess base plan. However, after a long discussion, the committee determined that the Administration and Congress are opposed to farm programs that are based on allotments, marketing quotas, etc. The strong attack upon tobbaco and peanut programs in the 1981 farm bill debate is evidence of the opposition to production restraint programs. The problem lies in devising a national excess base plan that would be administratively feasible, allow for easy entry of new producers, and a plan under which the base would not take on a capital value. The committee considered the two plans (Jeffords and Gunderson) currently being circulated among Congress and reached an agreement that a pure base plan could not be enacted that met the above criteria.

In considering the new Dairy Price Support program, the committee voiced their concern over credit policies of financial institutions that encourage young producers to enter the dairy industry. They especially identified such lending policies of the Farmers Home Administration and the Production Credit Association of the Farm Credit Administration.

The committee called attention to several aspects of existing tax laws which contribute to the dairy industry's current supply imbalance. Among these provisions are: 1) Investment Tax Credits (ITC's) on single purpose farm structures; 2) ITC's on equipment; 3) accelerated depreciation allowances on capital investments; and 4) the lack of any statutory limit to ITC's or accelerated depreciation allowances. The existence of such wide variety of tax incentives coupled with the present open-ended price support program have contributed, to some degree, to dairy surpluses.

I. National Dairy Product Promotion Program

The National Grange will support legislation to authorize the establishment of a National Dairy Product Promotion Program.

The program would be financed through a $.05 per hundredweight mandatory check-off on all milk marketed. The plan would be submitted to all dairy farmers in a nationwide referendum. In such a referendum, members of cooperative associations would be allowed to vote as a unit (block voting). If this were done, the cooperative's Board of Directors would be required to notify the membership of how their vote was cast and the reasons for such a vote. At the same time, opportunity would go into effect only if approved by a majority of those dairy farmers voting in the nationwide referendum.

The program is to be administered by a Board of Directors comprised of dairy farmers. The Board would be appointed by the Secretary of Agriculture from nominees submitted by producers. Board membership would be on a geographic basis to assure representation of all milk producing regions. The program would be directed toward increasing sales and consumption of all dairy products. Emphasis would be on those products which have been purchased by the Commodity Credit Corporation, under the price support program.

II. Dairy Stabilization World Price Program

The National Grange will support legislation to establish an amended version of the plan first proposed by the National Milk Producers Federation (NMPF). The Grange amendments would provide for (1) New Producer Provision, (2) Production Disincentive, (3) Reduced Production Incentive, and (4) Revised Federal National Milk Standards.

As amended, the program meets the objectives of the National Grange and would (1) reduce the cost of the program to the U.S. Treasury; (2) preserve the present price support program based on the parity concept; (3) establish a National Dairy Board to help administer the program and assume responsibility to dispose of surplus production; (4) preserve the government role in administering the purchase of surplus dairy products through the Commodity Credit Corporation; (5) call on dairy farmers to help finance the surplus removal program; (6) stabilize milk and dairy product prices in the best interest of farmers and consumers.

Enabling Legislation

The Agricultural Act of 1949 would be amended for a time specific period to authorize the Dairy Stabilization World Price Program.

The legislation would provide for:

1. A support price of $13.10 per hundredwwight of milk for Fiscal Year 1983. In subsequent years the support price would be established to reflect the level of parity which $13.10 represents at the beginning of FY 1983, or higher if necessary to assure an adequate supply of fresh, wholesome milk.

2. A Dairy Board appointed by the Secretary of Agriculture and having major responsibilities for administering the program.

3. Government financing sufficient to purchase and manage up to the equivalent of 5.0 billion pounds of milk supply. (The amount presently used in domestic feeding programs,

plus the milk equivalent of dairy product imports).

4. Producer financing sufficient to purchase dairy products in excess of 5.0 billion pounds of milk equivalent.

5. A producer assessment percentage related to the national surplus. (The national surplus is that amount of milk produced in excess of commercial demand, plus the government reserve of 5.0 billion pounds of milk equivalent.)

6. The distribution, at the direction of the Dairy Board, of all dairy products purchased under the program.

7. The Dairy Board to have control of all import licenses issued by the Department of Agriculture should the President of the United States determine to take emergency action to temporarily raise import quotas on dairy products.

Program Administration

The Price Support Level - Two-Tier Pricing System

The support price would be fixed at a level that would save farmers from any drastic price drop ($13.10 through FY 1983, thereafter at the level of parity represented by $13.10 at the beginning of FY 1983, approximately 67-68 percent of parity, or higher if deemed necessary to insure an adequate supply of fresh, wholesome milk.)

All milk produced for commercial use, plus the 5.0 billion pounds of milk equivalent purchased by the government, would be paid for at the Tier I price as established above. All milk produced in excess of this amount would receive a price related to the world price (approximately $6.00 per hundredweight). The greater the surplus, the greater would be the assessment and the portion of milk to which it applies. When the decline in production brings the excess back to the 5.0 billion pound annual level, the assessment would be eliminated.

A - New Producer Provision

The National Grange realizes that any dairy program must allow for entry of new producers. However, the Grange is strongly opposed to allowing new producers to enter the dairy industry during this time of high program costs and amounting surpluses. We therefore propose the following provision as part of the new Dairy Stabilizing Program:
(1) Until the National Dairy Board determines that demand is within 2 percent of supply, a new producer would receive the Tier I price on 60 percent of his milk production and the Tier II price on his remaining production for that year. Following a new producer's first year of production, he shall be treated the same as an established producer.

B - Production Disincentive Provision

A two-tier program, in order to be successful in controlling excess milk production, must contain a provision to discourage increased production that would be eligible to receive the Tier I price.

Example: If a dairy farmer was producing 500,000 lbs. of milk annually, and it was determined that there was 10 percent surplus milk, this producer would receive the Tier I prices ($13.10/cwt) on 450,000 lbs, and the Tier II price on 50,000 lbs. The next year this producer could add cows and increase his production to 800,000 lbs. of milk annually. If the surplus percentage remained at 10 percent, this producer then would receive the higher Tier I price on 720,000 lbs. of milk and the Tier II price on 80,000 lbs. He would be rewarded for contributing to the already existing surplus.

To remove this incentive to increase production, the National Grange recommends that until such time that the Board determines that supply is within 2 percent of demand, the following provision would apply: (1) In any quarter that a producer increased his production over the corresponding quarter of the previous year, his percentage of price reduction shall be the national average percentage reduction plus a reduction equal to the amount of his increased production for that quarter. (The increase in production plus the national average surplus percentage would all be subject to the Tier II price).

C - Reduced Production Incentive Program

To encourage producers to cut back on production, the National Grange recommends that: (1) A dairy producer who can prove that he has decreased his production below that of the corresponding quarter of the previous year may file for a rebate of his surplus production assessment equal to the amount of reduced production. However, if a dairy producer can prove that his annual production in the year of enactment of the Dairy Price Stabilization Program, and in any subsequent year, is below that of the previous year, including any national average percentage reduction announced by the Board, he shall be exempt from the national surplus assessment.

III. National Milk Standards

The National Grange is in complete agreement that the national standards for milk should be reviewed and adjusted to reflect higher butterfat and solids-not-fat content. Currently, the minimum national standards for milk are:

	B.F.	S.N.F.
Whole Milk	3.25	8.25
Lowfat	.5 to 2.00	8.25
Nonfat	0 to .50	8.25

The National Grange endorses the following increases in minimum national standards:

Whole Milk	3.50	8.7
Lowfat	2.00	10.0
Nonfat	.25	9.0

IV. Financing

The program would be financed by:

(1) Federal Government funds sufficient to cover the cost of purchasing and managing dairy products made from up to 5.0 billion pounds of milk annually.

(2) Dairy farmer funds, as necessary, to purchase, manage and dispose of dairy products made from more than 5.0 pounds of excess milk. The dairy farmer funds would be derived from the difference between the Tier I and

Tier II price. The difference between the two prices would be remitted to the Commodity Credit Corporation (CCC) by the first purchaser of milk from farmers. Monies collected would be used by the CCC to support the price of milk at the Tier I price of $13.10 per hundredweight or at that percentage of parity, $13.10 would represent October 1, 1983

(3) By funds realized by the Board from the sale of dairy products both domestically and abroad.

V. Dairy Board

A Dairy Board nominated by producer representatives and appointed by the Secretary of Agriculture would be assigned major responsibilities for administering the program. The powers and duties would be:

(1) Determine producer responsibility, based on estimates of production, consumption and CCC purchases.

(2) Establish a uniform amount per hundredweight of milk to be assessed on surplus production and adjust such rate as necessary to carry out its responsibilities without accumulation of access funds. Determine procedures to be followed by first handlers in adjusting assessments on producers who have increased or decreased production in agreement with provisions of the Act.

(3) Dispose of dairy products acquired by USDA to support the price of milk, including:

a. Sales for unrestricted use.

b. Transfers to government and other agencies for food program use.

c. Sales to commercial exporters or payments to commercial exporters on products that otherwise would be purchased.

d. Sales to foreign governments.

e. Sales or donations for special uses, or to prevent spoilage.

(4) Consult with the Secretary of Agriculture on the operations of the price support program.

(5) Allocate import licenses assigned to it by USDA in the event the President takes emergency action to temporarily increase import quotas on dairy products.

VI. Secretary of Agriculture

The Secretary of Agriculture would perform all duties incident to the operation of the price support operation as has been customary, except:

(1) He would have no discretion in setting the level of price support. The level of price support would be established by Congress in the enabling legislation.

(2) Those duties specifically assigned to the Dairy Board.

The Secretary of Agriculture would:

(1) Serve as a member of the Dairy Board and cooperate with it in the performance of its duties.

(2) Provide the Dairy Board with access to all pertinent economic and financial data and information possessed by USDA and make all USDA personnel available to consult with or advise the Dairy Board in establishing, adjusting or eliminating assessment rates and in carrying out other duties assigned to it.

(3) Collect assessments as directed by the Dairy Board from all parties responsible for making payment to dairymen for milk, and directly from farmers who produce and market their own milk (producer-handlers).

(4) Provide audit service to determine that all assessments have been properly made and transmitted to him.

(5) Establish the terms and conditions under which USDA would purchase dairy products including grading standards, container specification, payment, and shipping instructions. Provide a grading service.

(6) Buy dairy products through CCC.

(7) Deliver, at the direction of the Dairy Board, dairy products in the form, to the place, and at the time specified.

(8) Pay, at the direction of the Dairy Board, all obligations committed by the Dairy Board in carrying out its responsibilities.

The National Grange believes that this self-help program will serve the long-range best interest of dairy farmers, consumers and reduce the cost of the dairy price support program to the federal government. One of the criticims of the federation proposal is that there is no incentive to cut back production. We believe that our amendments strengthen the stabilization program by providing both incentives to cut production and a disincentive to increasing production.

The amendments we propose would have the affect and benefits of a national excess base plan without the objections to such plans in that they allow for new producers to enter the dairy industry and the milk production of an individual dairy farmer would not acquire a capital value. There would be no base or quota assigned to each dairy farmer as in other base plans and producer would be free to make his own production decision based on the price return for his milk.

Thank you Mr. Chairman for giving the Grange this opportunity to express its views on changes needed in the present dairy price support program. There was only one other serious attempt to amend the dairy provisions of the Agriculture Act of 1949 and that was in 1954-1958. It was during that time that the National Grange Dairy Committee, composed of leaders from the dairy industry and the Grange, developed the original self-help dairy stabilization program. It is that original work that has been the basis for the programs that have been introduced in Congress this year.

APPENDIX A

national grange

1616 H STREET, N.W.   WASHINGTON, D.C. 20006   (202) 628-3507

Edward Andersen, Master

February 2, 1981

The President
Ronald Reagan
The White House
Washington, D.C. 20500

Dear Mr. President:

The National Grange has followed the dairy situation with considerable interest throughout the last two years. We are very much aware of the increase in supply of dairy products at a time of a decrease in demand. We are also aware of the Administration's concern with the higher cost of the dairy price support program.

The National Grange believes there are several factors contributing to the imbalance of supply and demand that are more important than the level of price supports. These include:

1) the relatively cheap and abundant supply of feedstuffs, corn and soybean meal;

2) low prices for utility grade beef; and

3) the slowdown of the general economy.

The first two reasons, the cheap and abundant supply of feedstuffs and the low beef prices, have led to significant changes in dairying practices. Dairy farmers now feed heavy rations, thereby increasing production per cow, and also postpone culling of low producers, thereby increasing cow numbers. This has caused an increase in milk production at a time of general recession, resulting in a decrease in per capita consumption of milk and milk products.

It is important to remember that during the first two and a half years of maintaining the dairy price support level at 80 percent of parity (1977-1979), supply and demand were in balance. The CCC purchases at that time were almost equal to the amount of dairy products imported under the Section 22 quotas. Imports continue to be one of the contributing factors to dairy surpluses. Under the agreements reached at the Multilateral Trade Negotiations (Tokyo Round), the amount of cheese admitted into the United States was increased. Casein, a milk protein, is not under quota, and casein imports have increased substantially during the past two years.

Taking all of these factors into consideration, we believe the present imbalance is a short term aberration that will be self-correcting given changes in the other segments of agriculture, a reduction in imports, and a turnaround of the general economy.

Therefore, to give the dairy industry sufficient time for self-correction and to reduce the cost of the dairy price support program during the next six months, the National Grange recommends against implementing the April 1, 1981 semi-annual adjustment in the dairy price support level, as mandated in the amendment to the Food and Agriculture Act of 1977. In its place, the dairy price support level should be adjusted to 75 percent of parity.

However, there are three issues of concern to the dairy industry that should be administratively addressed in conjunction with the decision on the dairy price support level. We urge your administration to:

1) Issue a final, negative determination on the petition submitted by the Community Nutrition Institute to reclassify reconstituted milk as Class III milk instead of Class I milk under the Federal Milk Marketing Orders;

2) Establish a zero quota on imported casein for food and fuel; and

3) Establish the resale price of dairy products held by the CCC at 110 percent of purchase price rather than 105 percent.

Mr. President, we of the National Grange believe this to be a sound course of action for your administration, one that will reduce the cost of the dairy price support program and give the dairy industry sufficient time for self-correction of the supply and demand situation. Your thoughtful consideration of our recommendations will be greatly appreciated.

Respectfully,

EA:sm

Edward Andersen, Master
National Grange

cc: Secretary John Block
Edwin Meese III

APPENDIX B

The National Grange believes that the current overproduction of fluid milk is only for the short-term. Given changes in other agriculture segments (feed stuffs prices and meat prices), and an improvement in the national economy, production will be brought in balance with demand. Therefore, the Grange will accept legislation to eliminate the April 1, 1981 eighty percent price support adjustment as a short term correction in the dairy price support program costs.

In the long term, the National Grange recommends the following:

1) In keeping with the recommendation of the National Grange delegate body, the Food and Agriculture Act of 1977 should be extended for one year, including maintaining the dairy price support at 80 percent of parity.

2) If it is politically and economically impossible to maintain the price support level at 80 percent of parity in any new farm legislation being considered by the Congress, the Grange will support an adjustable parity dairy price support program which would tie the price support as a percent of parity to the amount of anticipated annual rate of net government purchases. Under the formula, dairy price supports would move up or down between 75 and 90 percent of parity, depending on the future estimates of government purchases.

3) Before adopting a new formula of determining dairy price support, the following Administrative actions should be taken:

    (a) The investigation into reconstituted milk should be ended.

    (b) A zero quota on casein imports used for feed or food should be instituted.

    (c) The sell-back price for dairy products held in CCC should be set at 110 percent.

APPENDIX C

[Reprint from Maryland Farmer, June 1982]

LEASING SIMPLE WAY TO CUT COSTS

Commercial businesses often use leasing as a way to meet capital needs. The practice is now also being adopted by farmers in some parts of the country as an alternative to buying equipment or breeding stock—especially in dairy and swine operations.

To learn whether the idea will work on the Delmarva peninsula, economists in the University of Delaware's colleges of agricultural sciences, and business and economics surveyed the area's agricultural and business communities to discover how farmers felt about leasing. The survey was funded by a grant from Rothchilds, a New York-based investment firm.

According to Extension farm management specialist Dr. Don Tilmon, who participated in the study, results showed that while farmers on the peninsula are still reluctant to lease equipment, some could and in the future probably would benefit from leasing livestock.

"Commercial firms are now entering this market and complete herds, herd expansions and replacements are being made available," he said.

One firm claims to have leased 18,000 cows at an average cost of about 87 cents per cow per day. This is less than the interest a farmer would pay on money borrowed to buy that cow.

Leasing allows a farmer to retain the use of assets such as breeding stock without investing equity or debt capital. The arrangement also benefits the owner of the stock, who gets a tax benefit because, under the 1981 tax reform act, the profits are considered capital gains rather than income—a distinction worth tax savings of 60 percent on the money involved.

Lease arrangements offer several other advantages to both parties. No down payment is required from the leasee. Payments are full deductible tax expenses. A lease gives a beginning farmer a chance to acquire resources, and may also be a way to obtain better quality livestock than would be possible otherwise.

The same time, the leasor or owner of the livestock retains the breeding herd without providing labor and operating inputs, and may have investment credit and accelerated cost recovery (depreciation) tax benefits. Total rerun may also be higher through rental income and tax advantages.

Tilmon said farmers who currently own a livestock operation but are nearing retirement may want to consider leasing their herds as an orderly means of phasing out of the business without being subjected to large tax liabilities.

However, there are also some drawbacks to livestock lease arrangements, he cautioned. Both parties give up partial control, and possible conflicts of interest or disagreements are much more likely than in a sale transaction. In the long run, leasing may also be more expensive than a capital purchase.

A lease agreement is a binding contract and should be in writing, Tilmon said. Engage an attorney to help with the legal details. The specialist is also available to consult with farmers who want to make sure such an arrangement meets their needs.

STATEMENT OF

ROBERT J. MULLINS
DIRECTOR OF LEGISLATIVE SERVICES
NATIONAL FARMERS UNION

Mr. Chairman and Members of the Subcommittee:

I am Robert J. Mullins, Director of Legislative Services for the National Farmers Union, a general farm organization representing the interests of family farmers and ranchers throughout the United States. Included in our membership are substantial numbers of dairy farmers in the major milk producing regions of the country.

I appreciate the opportunity to appear before the Subcommittee to relate to you our views and concerns relative to the dairy situation and suggest some possible alternatives which will help alleviate the temporary excess production of dairy products.

One need not take the Committee's time to review the seriousness of the current situation. However, we would caution the Subcommittee to be very careful in making substantial changes in the mechanics of the dairy price support program. What is a temporary oversupply problem could easily turn into a shortage situation if the dairy program is destabilized.

Delegates to the most recent National Farmers Union convention, held here in Washington, some three months ago, spent considerable time discussing the dairy situation and considering possible program changes.

As part of the Farmers Union's dairy policy, the delegates said:

> "We reaffirm our support of the dairy provisions of the Agriculture Act of 1949, guaranteeing milk price supports between 75 and 90 percent of parity. We believe this program serves the mutual interests of producers and consumers by assuring an adequate supply of milk products at reasonable prices while providing a degree of producer income stability.
>
> "The dairy support prices in the Agriculture and Food Act of 1981 are totally inadequate to assure the stability that has been the hallmark of the program over the years. We regard the new law as an initial step in an overall effort to dismantle the entire milk price stabilization program.
>
> "To prevent that eventuality, we believe changes in the dairy price support program are in order. Of the major commodity programs in the United States, the dairy program is one of the few without authority for production adjustment. In the absence of such provisions, milk production has risen to burdensome levels, increasing fastest among the nation's largest producers."

In order to formulate a proposal incorporating our basic philosophy and addressing our concerns, the delegates established a Dairy Task Force, "to study and develop plans for the implementation of a program inclusive of these policy positions." That Task Force was appointed by our national president, George W. Stone, immediately after the convention, and spent considerable time in formulating our recommendations.

Those recommendations have culminated in a bill introduced in the House of Representatives, H.R. 6499, "The Dairy Product Stabilization Act of 1982", and soon to be introduced in the Senate. We feel it would be helpful to the Subcommittee to examine our proposal carefully, along with the other proposals which have been introduced.

We recognize the efforts of many other organizations and Members of Congress in attempting to formulate policy changes in the dairy area. We believe that a thorough examination of these proposals by the Subcommittee will lead to a positive stable dairy program.

We do believe that the approach in H.R. 6499 has some definite advantages: It has the best mix of provisions; it is a straightforward program requiring no new bureaucracy to administer it; it will save the Federal government substantial amounts of money while doing the most to protect dairy farmers' incomes; it will assure adequate supplies of milk at reasonable stable prices to consumers; and it will give producers a real incentive to avoid overproduction. It achieves, in sum, what we are all striving for.

The only proposal we urge this Subcommittee to reject out-of-hand is the one sent up by the Administration. The Administration's plan will not reduce the dairy surplus, but in fact may well likely increase it, while driving thousands of family dairy operations out of business. Historically, dairy farmers have responded to dairy price support cuts by increasing milk production to maintain cash flow, especially when the government follows a cheap grain policy, as is now the case with this Administration.

We believe our proposal, "The Dairy Product Stabilization Act of 1982", is a straightforward efficient program to manage supplies with demand. Following is a brief explanation of the major provisions of the measure:

"THE DAIRY PRODUCT STABILIZATION ACT OF 1982"

OBJECTIVES

1. To stabilize the supply of milk and milk products at levels which will adequately meet the needs of the nation's consumers.

2. To improve and insure a reasonable level of income for dairy farmers to meet current needs, to reflect changes in the cost of production and maintain productive capacity sufficient to meet anticipated future needs.

3. To insure adequate levels of government stocks to meet the needs of domestic nutrition and other commitments.

4. To bring the dairy price support program within acceptable federal expenditure levels.

PROGRAM DETAILS

1. Base Plan:

   Each dairy farmer shall be assigned a production base equal to that producer's production during the calendar year 1981. (In the event of serious inequities or other extenuating circumstance, new producers, etc., adjustment of the base would be permitted.)

2. Price Support Level :

   The price of all milk shall be supported at not less than 75 percent of parity in the first two years under this authority and thereafter at such level, not less than 75 percent of parity, as will, in the view of the Secretary of Agriculture, achieve the income and supply objectives of this program. The Commodity Credit Corporation shall be responsible for meeting the cost of the price support on such production as is within the base or the announced production goal, while the cost of acquisition and disposition of production in excess of the desired production shall be financed through marketing assessments.

3. Production Goals:

Prior to each marketing year, the Secretary shall establish a production goal for that year. The production goal shall be expressed in terms of a percentage of each producer's base. Such percentages shall be uniformly applied to all producer bases.

4. Administration:

The Dairy Stabilization Program shall be administered by the Secretary of Agriculture.

The Commodity Credit Corporation shall be responsible for the purchase of excess dairy products thereby supporting the price.

Federal Milk Market Order Administrators, and others designated by the Secretary of Agriculture, shall be responsible for regulating the marketing assessments.

The administration of producer bases and any adjustments thereof shall be the responsibility of the local ASCS Committee.

5. Excess Marketing Assessments:

(1) Producers who produce in excess of the production goal, but not in excess of the producers' base, shall be subject to a five percent marketing assessment on the total volume of milk marketed, deducted at the first point of sale.

(2) Producers who produce in excess of the producers' base shall be subject to an additional ten percent excess marketing assessment on the total volume of milk marketed, deducted at the first point of sale.

6. Government Stocks :

The Department of Agriculture shall be responsible for the cost of maintaining an inventory of dairy stocks up to five billion pounds (milk equivalent) in order to meet the requirements of federal nutrition programs and to offset the impact of imported dairy products.

If government stocks of dairy products increase as a result of increased importation of dairy products, the Department of Agriculture shall be responsible for the additional domestic dairy stock purchases without regard to the five billion pounds required to be assumed and such additional stocks shall not impact on the domestic price support program or the national production goal.

7. Assignment of Funds:

All funds assessed against producers and collected by the Secretary of Agriculture against excess production shall be credited to the Commodity Credit Corporation to help offset costs of purchase and disposition of such excess production.

8. Producer Referendum:

The Dairy Stabilization Program shall be subject to a producer referendum at the end of two years of operation. Such a referendum shall require that each producer wishing to participate in the referendum shall do so as an individual.

To continue in operation, the Dairy Stabilization Program must be approved by a majority of producers voting in the referendum.

If the program is rejected in a referendum, producers shall have the option, upon petition by ten percent of the producers to the Secretary of Agriculture, to hold a subsequent referendum within three years.

9. Reserved Base:

There shall be reserved to the Secretary an amount of the total base equal to one half of one percent to be used by the ASCS for adjustment of bases.

10. Applicability :

In order to assure that the Dairy Stabilization Program achieves the goal of production stabilization, ALL dairy producers shall be subject to the provisions of the program.

This is a straightforward bill. It addresses the problems and provides equitable solutions, producers and consumers will benefit by being assured of adequate supplies of dairy products and by keeping dairy farmers on the milk line and out of the unemployment line.

We do not address the question of a dairy check-off program in this legislation. It is our opinion that such a program, if it is to be considered at all, should be considered as a seperate piece of legislation. We think it would be a mistake to tie adjustments to the price support level with any other measure which may of its own draw more opponents than necessary.

However, if the Subcommittee does consider such a proposal, let me make it clear that the National Farmers Union has a very definitive policy statement on such programs, and for the benefit of the Subcommittee, I shall outline it at this time:

COMMODITY CHECK-OFF PROGRAMS

"The Farmers Union will support research and promotion programs financed by deductions from the proceeds of sales by producers of agricultural commodities, only if all of the following criteria are met:

1. That disbursement of funds collected is controlled by boards of producers elected by the producers assessed, and that the operations of the program are controlled by these producer boards.

2. Approval is by two-thirds of producers voting in referendum by mail.

3. Programs being formulated or currently in operation are subject to review in a referendum every three years and subject to review at any time on the call of ten percent of producers concerned.

4. Producers be provided the opportunity to contribute or not at the initial point of collection.

5. Criminal penalties are provided against funds being used for political or lobbying activities.

6. Changes in existing check-off programs, including changes in check-off levies and/or administrative and operational changes, be submitted to the producers affected and subject to approval by a two-thirds vote.

7. After a Federal check-off program is in effect, all review referendums be financed and conducted by the Federal government.

Thank you, Mr. Chairman.

STATEMENT OF JAMES J. GRACI, COMMUNICATIONS COORDINATOR, PENNSYLVANIA FARMERS UNION

Mr. Chairman and members of the committee:

I am James J. Graci, Communications Coordinator for the Pennsylvania Farmers Union, an organization of over 11,000 family farmers.

We appreciate this opportunity to offer our views on a subject area vital to the agricultural economy of Pennsylvania: the survival of the dairy industry.

Pennsylvania has over 15,500 dairymen in the state, producing 4.2 billion quarts of milk in 1981 which, according to Department of Agriculture statistics, is an increase of three percent from 1980 and the sixth straight year for production gains. The Commonwealth ranks fifth nationally in dairy production. The industry also accounts for one percent of Pennsylvania's workforce. So it's safe to say the dairy industry is the backbone to the agricultural economy of the Commonwealth. And agriculture has become the state's top industry, thus becomming the cornerstone of Pennsylvania's economic strength.

Senator, as glowing as these figures may sound, dairymen in Pennsylvania are in trouble. Dairymen nationwide are in trouble. Production supply has far outweighed consumer demand, resulting in a massive surplus of dairy products.

Dairy farmers production costs average $13.08 per hundred pounds, while the price support level is set at $13.10. On the average, farmers receive less than two cents per quart.

In our travels and discussions with Pennsylvania dairy farmers specifically over the last four months, there is a feeling of worry, depression and deep concern about the uncertainty of the future.

Some dairymen are quite pessimistic. Others have a feeling of hopelessness. They see their milk checks go solely to bills, and their debt continues to rise at alarming rates, borrowing money to stay afloat.

It is well documented that the longer interest rates continue at their current high rate, the more and more farmers go out of business. Dairy farmers are no exception to this rule. But dairymen face a special problem.

In years past, technology and advancements in research have made our farmers very good at what they do. They have learned how to maximize their profits through expansion of production.

Our land grant universities, extension services and the Department of Agriculture in past years have paved the way for overproduction. These bodies can not be faulted for their efforts, but what we've created are the most efficient mass production establishments in all of agriculture - the dairy farm.

Very soon, production overweighed demand, forcing dairy farmers into the squeeze they now face. With the backup of support prices and CCC purchases, dairy farmers could continue to over produce and still remain protected.

But in 1980, the support price was frozen at $13.10 per hundredweight without regard to the parity formula, a philosophy that Farmers Union stands behind strongly. In the 1981 Farm Bill, the support price was again frozen at $13.10 per cwt. Dairy farmers started to feel the pinch, so they began producing even more to make up for the difference. After all, in a capitalistic society the more you produce, the more revenue you generate.

Farmers Union considers the proposed Administration program as a two-fold destruction of the dairy industry. To again freeze the support price would only invite dairymen to continue their historic practice: produce more to keep afloat. But the most serious flaw to the plan are the small family farmers who could not afford to stay solvent regardless of overproduction. Those farmers will be forced out of business.

In Pennsylvania, the dairy industry has under gone intense scrutineny because of a dairy referendum that was recently conducted. Our organization was opposed to the referendum, which would have established a statewide advertising, promotion and research program for the dairy industry. Our opposition was based on the cries of help from our membership. The program, which would have raised $9 million per year for five years, was earmarked to be funded TOTALLY by dairymen. Proponents sold the program as self-help savior to Pennsylvania's dairy industry. Along with one major cooperative, the Pennsylvania Farmers Union was the only farm organization opposing the referendum. The plan was defeated by a 59-41 percent margin.

Dairymen realized that a statewide program could not solve a national problem. The problem of surplus milk and fair price for product can not be solved in Harrisburg, it must be attacked in Washington, where all farm programs are generated through Congress.

Although the statewide referendum was defeated, dairymen were solidified by the need for some form of production controls, provided that dairy farmers could remain equatable. Dairy farmers across Pennsylvania are supportive of the production base plan advocated by National Farmers Union, which Mr. Robert Mullins has outlined in his testimony. Our organization was represented on the NFU Dairy Task Force and concures with its proposals.

The committee's recommendations have been put in the form of legislation entitled the Dairy Products Stabilization Act of 1982, introduced in the House of Representatives by Congressman James Oberstar of Minnesota. As Mr. Mullins outlined, the program would set up a production base for dairymen, as well as guarantee a minimum price support of 75 percent of parity. The proposal is easy to implement, provides an adequate disincentive for overproduction, and would stabilize the dairy economy in a short period of time.

The bottom line is consumer acceptance. This program would cut the cost of the government surplus program in half.

As members of the subcommittee on agriculture production, we urge you to seriously consider this program. Farmers in Pennsylvania are advocates of a cheap food policy for consumers, so long as it is not at the expense of their well-being.

Dairy farmers are counting on the 97th Congress to provide the arm in which they can help themselves. With passage of the Dairy Products Stabilization Plan, those dreams of stability can become a reality.

For Congress to turn its back on the dairy industry, is to turn its back on the economic growth of rural Pennsylvania and rural America.

Thank you for the opportunity to testify.

STATEMENT OF ROBERT H. RUMLER, CHAIRMAN, HOLSTEIN-FRIESIAN ASSOCIATION OF AMERICA, BRATTLEBORO, VERMONT

Mr. Chairman, members of the Committee:

I am Robert H. Rumler, Chairman of Holstein-Friesian Association of America headquartered in Brattleboro, Vermont. I am privileged to testify today in the interest of more than 40,000 members of the Holstein Association located in every state. In this testimony, I feel that I can also represent the interest of Holstein dairymen across the country who produce upwards of 90% of the nation's milk supply. In any representation on the subject of Dairy Price Support Legislation, however, it is doubtful if any one person or any single organization can speak with the full, unqualified support of every dairyman or member of their organization because of major variations within the industry nationally and the multiplicity of organizational membership of dairymen. My testimony has the approval of the Board of Directors of Holstein Association.

It is a well accepted fact that a substantial imbalance exists between supply and demand for milk and dairy products in the United States. Also, it is well accepted that this imbalance has been developing for several years. It is less well accepted, but I believe nonetheless valid, that a realistic evaluation of current conditions do not suggest an early turn around on the supply side, notwithstanding the fact that the rate of increase in milk production may be slowing. Those who argue that the "threat" of economic disincentives to continued high levels of milk production will bring voluntary response in production cutbacks fail to reckon with the critical need of many dairymen for a continuing or increased cash flow, the speculative nature of any substantial increase in feed costs, the uncertainty of a significant increase in cull cow prices and, most of all, the historically high percentage of replacement dairy heifers on farms at the present time. In this equation, it is the number of replacement heifers and their inherited capability to produce which represents the single most significant factor. At least for the next 18 months, it is not so much a matter of the number of dairymen who are milking cows, but rather the number of cows dairymen are milking and how well those cows are being fed. It is entirely possible for dairymen to be forced out of business for economic reasons without all of the cows in their herds going out of production.....conceivably a significant number of milk cows sold at distressed prices could move into herds of dairymen who are not as heavily leveraged financially as the individuals who are forced to liquidate their herds.

Based on the current situation within the dairy industry, which is not of its own making, it is my opinion that the Congress is faced with the challenge to develop both an emergency plan to carry through the FY '83 marketing year and, at the same time, work on a more permanent plan which will address the purposes of the dairy price support program under the Agricultural Act of 1949. This Act requires that the level of support be established in such manner as to "assure an adequate supply of pure and wholesome milk to meet current needs, reflect changes in the cost of production and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs."

It is the position of our Association that the Dairy Price Support Program under the Agricultural Act of 1949 is one of the four cornerstones supporting the U. S. dairy marketing policy. Further, it is the position of our Association, "that the proper role of the Dairy Price Stabilization Program (milk price supports) is to provide a measure of industry stability and consumer security for adequate, high quality milk and dairy products for the present and especially for the future by setting price floors at realistic minimum levels and not to provide income enhancement for dairy farmers."

It is becoming increasingly obvious that the dairy provisions within the Agriculture and Food Act of 1981 were dictated more by budgetary policy and constraints than the judicious management of a dairy price stabilization program which generally has served the industry and the national interest quite well through the years. Admittedly, it has been government and related national conditions, not the industry, which has gotten the dairy industry into its present "fix".

It is the further policy and position of our Association, "that industry history justifies the maintenance of parity or some equally (more) sensitive economic formula for determining the level of support for specified periods of time. The support level so produced may be refined on an interim or temporary basis by applying factors which reflect the current supply-demand situation. The long-term best interest of both the consumer and the producer must be the overriding criteria in determining support levels vs. predetermined fixed federal budget constraints."

This is not to suggest that the dairymen of this country or our Association does not support the principles espoused by the present Administration for economic recovery. It does! But, implementation must be through the judicious application of good management of potentially effective programs, especially in the agricultural sector.

EMERGENCY DAIRY PLAN

By dividing the Congressional challenge for legislative action into an "emergency status" and a "long-time program" of price stabilization within the industry, potential solutions become more clear and the issues far less confusing. Clearly, if an emergency does exist, then something should be done about it now without delay. Threats of lower price supports at sometime in the future and the "hope" that a turn-around situation is imminent cannot in any way be construed as sending an effective signal to the industry that production has to be cut. Here the key word is "effective." Under such indefinite circumstances, a voluntary cutback in cow numbers is highly unlikely.

If the above is realistic, the inevitable might better come now than later. If so, then it is important that the method by which support prices are lowered from the arbitrarily established level of $13.10 per hundredweight through FY '82 as provided in the Agriculture and Food Act of 1981 should be applied with discretion and with the appropriate recognition of its effect upon the industry.

It must be recognized that fresh fluid milk products are uniquely the product leaders in the U. S. dairy industry. Properly, they command a higher price and they are not subject to displacement by hard dairy products domestically produced or subject to temporary changes in the vagaries of import/export activities. As a consequence, it appears logical to maintain market stability within any emergency action for these fluid milk products.

While reductions in the level of price supports should apply to fluid milk products, it is completely realistic as an emergency measure to effect a lesser reduction for them than that which might be applied to the hard dairy products, specifically butter, cheese and non-fat dry milk. The end result of such emergency action would be to increase the spread and the equivalent level of supports between the hard dairy products and the fresh fluid milk products, albeit that both categories would be subject to reduction on an emergency basis through FY '83.

If it is inevitable that dairy price supports will be reduced, then why not now, with reductions judiciously and appropriately distributed or allocated. This would tend to maintain the stability and minimize the disruption of the fluid milk markets which are much more localized than the markets for hard products which are completely national in nature. Additionally, gross producer deliveries used in Class I products in the Federal Milk Order Market Program has remained rather stable from 1977 through 1981 at approximately 41 billion pounds.

As an example, but in no way meant to be a specific suggestion as to numbers, we might consider the pricing level of Class I milk vs. Class II and Class III as reported for February 1982 in the April 1982 issue of Federal Milk Order Market Statistics. In this we find that the minimum Class I price was $14.71 and the blend price $13.59. If it is desired to achieve a support level in the neighborhood of $12.00 per hundredweight, this would result in a reduction of $1.59 from the blend price of $13.59 with 46% used in Class I and 54% in the other Classes. Should Class I prices be reduced by the equivalent of 33 1/3% and the other Classes by 66 2/3%, the resulting average prices would be $14.19 per hundredweight for Class I milk and $11.55 per hundredweight for other Classes, producing an average spread between Class I milk and milk for manufactured products of $2.64 per hundredweight vs. a spread of $2.09 per hundredweight in the pricing statistics for February 1982.

Please let me emphasize that any such approach should be considered only as an emergency measure through FY '83.

LONG-RANGE PROGRAM

In considering the responsibility of Congress in two steps, the opportunity exists for a more studied approach to a definitive, well conceived program to be in place when emergency legislation expires. Here again, we believe that the Congress should consider the enactment of two pieces of legislation each of which in its own way would serve the purposes and achieve the goals originally set forth in the support legislation of 1949.

The first of these would be a national set-aside or check-off program from each milk producer. The funds so derived should be appropriately and judiciously allocated to programs of education, research, promotion, advertising and related activities providing all producers collectively the opportunity as well as the obligation to help maintain a viable industry which in the long run would serve the best interest of the American consumer.

In previous testimony before this Committee I understand that such a proposal was presented by the National Milk Producers Federation under the title of a "Dairy Products Promotion Act." While some minor refinements to the proposal may be felt necessary by this Committee, they should not be controversial and therefore should easily accommodate the sponsors as well as the Congress. Early passage of this legislation should be a foregone conclusion and thereby provide dairymen with the mechanism whereby they can help themselves while at the same time providing a very useful national nutritional service.

The second phase of the long-range program would relate to the Dairy Price Stabilization (support) Program. Realistically the Agriculture and Food Act of 1981 broke away for the first time from the parity formula as the basis for milk price supports. As indicated earlier, it is the position of our Association that there should be some legislated relationship between parity or some other more sensitive economic formula and the level of supports under this program. History is on the side of this position when sound management and good judgment prevailed in its administration.

Recommendafions have already been presented to this Committee for a two-tier pricing system and also a base/surplus or production quota plan. Either may be workable providing the penalty for surplus production is meaningful in terms of a major economic disincentive and producers who cut back on a percentage basis in times of surplus are adequately credited financially for their contribution to the achievement of a balance between supply and demand. The principle espoused by some that production be a completely open-ended opportunity without penalty or restriction to the disadvantage of those who adjust to demand levels is unrealistic and must be considered as unacceptable under either proposal.

As we look to the future, there is reason to believe and support for the contention that parity, per se, is obsolete as a sound basis for determining the level of price supports for milk. The components which make up the parity formula no longer apply well to the economics of milk production or sales. Neither do they react to changing economic situations with the degree of sensitivity which might best serve the industry and the fundamental principles of a dairy price support program.

This being the case, a reasonable and realistic alternative to other proposals would be the careful development of a special parity formula for the dairy industry. The components of such a dairy parity should be factors which are sensitive and economically measurable to changing situations within the economy on a current basis. They should include the factors which go into the cost of producing milk, but not the actual calculations of "cost of production." The latter is much too late after the fact to be effective. Also, the "cost production" base could be strongly biased by inefficient producers. Additionally, such a dairy parity must include sensitive factors measuring the supply/demand situation as well as the disposal income of the consumer.

The development of such a base would necessitate the careful weighting of each element in the formula so as to provide a realistic measure of the major facets of the industry to include but not necessarily be limited to the elements of production cost, the general economy of the country and the status of the consumer.

With such a sensitive model or base, the level of price supports for milk could be adjusted almost automatically on a quarterly basis to the benefit of both producer and consumer. At the same time, the government's administrative responsibility could be removed from the arbitrary decision process.

Perhaps such an economic base or standard could be termed the National Dairy Parity or Dairy Support Index.

Once the Dairy Parity or Support Index was in place and operating, the support price would vary, possibly on a quarterly basis as indicated earlier, but producers would know that surplus production would not be rewarded, but efficiency of production, as always, would be a desirable goal.

Legislation to provide such a system for establishing dairy price supports would be relatively simple and should be in place quite easily by the time emergency legislation would expire. The operation of the program would be much the same as it was before the level of price support was divorced from parity in the Farm Bill last year.

Mr. Chairman, there is no stability in a situation where desirable legislation of this nature moves from one crisis to another. I believe that there is merit in handling the current imbalance in the milk industry with emergency legislation while getting in place a workable, realistic long-range program.

[The following material was submitted by Robert H. Rumler, Holstein-Friesian Association, Brattleboro, Vt.]

AN ASSESSMENT OF PARITY AS A TOOL FOR FORMULATING AND EVALUATING AGRICULTURAL POLICY

(Report by the Comptroller General of the United States)

Policymakers regard parity, a measure of the purchasing power of farm commodities, as a barometer of the economic health of agriculture. Although it is a useful barometer, it does not reflect total farm sector well-being.

For many years, the trends in U.S. agriculture have been toward greater technological advances, declining margins, declining numbers of farms, and increasingly larger farms. Although the Nation has generally benefited from these trends, recent studies have suggested that if the trends continue unabated, the secondary impacts may well be a loss of farm sector resiliency, a decline in rural viability, a cutback in efforts to conserve our fertile soil, and less competition. Parity by itself is not a good indicator of these impacts.

In addition to parity, the Congress and other policymakers need a broader framework to use in developing, analyzing, and evaluating farm policies and programs. GAO recommends that the Secretary of Agriculture develop a comprehensive and systematic framework for the use of policymakers in formulating and evaluating various policy options for U.S. agriculture.

ALTERNATIVES TO REDUCE DAIRY SURPLUSES

(Comptroller General's Report to the Congress)

DIGEST

The U.S. Government faces the difficult task of balancing interests of the dairy industry and interests of consumers and taxpayers. Federal dairy policies and programs are designed, in part, to assure an adequate milk supply. But the U.S. dairy industry has continually produced more milk than can be marketed commercially at established market prices. The surplus, in the form of dairy products such as butter and cheese, is purchased by the Government. At times these purchases have been burdensome. (See p. 1.)

From 1949 through 1979 these removals totaled over 142 billion pounds (in milk equivalent) and the Government's net expenditures for dairy price-support and related programs totaled over $9 billion. (See p. 5.)

PARITY PRICE NOT EFFECTIVELY ACCOMPLISHING PROGRAM OBJECTIVES

The dairy price-support program, which uses parity price as the standard for determining the support level, is considered by many to be the principal cause of surpluses. Its objective is to set a support price that will (1) assure an adequate supply of milk to meet current needs, (2) reflect changes in production costs, and (3) assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs. (See pp. 2 and 8.)

The milk support price has rapidly increased—from $6.57 per hundredweight in April 1974 to $12.36 per hundredweight in April 1980. Most of the increase resulted from the formula for computing the parity price for milk. The formula does not adequately consider many economic factors affecting milk market conditions, such as costs of production and productivity. It includes some factors, such as family housing and clothing costs, which have little to do with milk production. (See pp. 9 to 16 and 21.)

The dairy price-support levels also have promoted more than adequate milk supplies and, in recent years, increased milk producer returns to levels more than adequate to maintain productive capacity. In every year since 1960, the total supply of dairy products has exceeded the total demand. In recent years dairy farm cash receipts have been at high levels ($14.7 billion in 1979), farm dairy prices have increased faster than the average prices for all farm products, and producer returns have increased faster than inflation. (See pp. 16 to 20.)

The Congress and the Secretary of Agriculture could make some changes in the program to help reduce surpluses and improve the parity price standard's effectiveness. (See pp. 20 to 27 and recommendations on pp. 27 and 28.) These changes, however, would still not ensure that the program's objectives would be effectively accomplished. Alternative milk-pricing standards need to be considered.

ALTERNATIVE STANDARDS

Several alternative milk-pricing standards could help solve or reduce the surplus problem and more effectively and equitably accomplish program objectives. These include a dairy parity price standard, a cost-of-production standard, and a standard based on a comprehensive formula that systematically and simultaneously considers changes in cost of production, milk product stocks, and demand.

The following table compares the milk support price as of October 1, 1979, based on the current parity price standard, with the estimated support prices based on two of the alternative standards. (See p. 32.)

Support price based on:	*Per hundredweight*
Current parity price	$11.49
Dairy parity price	[1] $10.51
Cost-of-production	[1] $10.00
Comprehensive formula	([2])

[1] Estimate.

[2] The price could not be estimated because sufficient research has not been done to design and implement a comprehensive formula.

In contrast to the current standard, the dairy parity price formula would use indexes reflecting only the prices received for dairy products and the prices paid for items used in producing milk. Each production item would be weighted according to its importance to the total production cost.

A dairy parity price standard would more closely reflect changes in factors affecting prices of dairy inputs but would not reflect productivity increases or supply and demand factors. Also, it would assure more balanced production and consumption, thereby reducing Government purchases of surpluses while still providing a reasonable return to producers. For example, in 1979 a dairy parity support price would have allowed producers a return over direct production costs of an estimated $3.31 per hundredweight. (See pp. 33 to 36 and 47.)

A cost-of-production standard would use average production costs per hundereweight of milk during a specified period as the basis for supporting milk prices. Such a standard would reflect the costs of productiong milk and productivity increases but would not consider supply and demand factors. (See pp. 36 to 41.)

A standard could be developed that would use a comprehensive formula to relate the price of milk to factors affecting supply and demand. Such a formula could systematically and simultaneously consider changes in cost of production, milk product stocks, and demand. If properly developed, it would represent a distinct improvement over the parity price, dairy parity price, and cost-of-production standards in that both supply and demand factors would be considered. (see pp. 41 to 45.)

GAO believes that a comprehensive formula could eventually be used to adjust the dairy price-support level. However, sufficient research needs to be done before this approach could be used. In the interim, the basis for setting the milk support price could be changed to either a dairy parity price standard or a cost-of-production standard. GAO believes the dairy parity price standard would be the least disruptive to the industry.

In computing a dairy parity price, a more recent base period should be used. The price-support level should initially be set at 100 percent of the dairy parity price. However, the Secretary of Agriculture should have the flexibility to adjust the level when Government purchases of surpluses exceed specified levels. This flexibility would help balance producer, consumer, and taxpayer interests and adjustments made would signal producers when problems existed. (See pp. 47 and 48.)

Whether to adopt a dairy parity price standard for the short term and, if appropriate, a standard based on a more comprehensive formula for the long term in a matter to be determined by the Congress. However, if the Congress decides to adopt this approach, GAO recommends that legislation be enacted—

Directing the Secretary to perform necessary research to develop and, if appropriate, implement a comprehensive formula designed to simultaneously consider changes in milk production costs, milk product stocks, and demand and

Authorizing the Secretary, until such a comprehensive formula can be developed and implemented, to (1) base the milk support price on 100 percent of the dairy parity price using a base period comparable with other national indexes and (2) adjust the price-support level when Government purchases of dairy products exceed specified levels. (See p. 48.)

PRODUCER PARTICIPATION IN DAIRY PROMOTION PROGRAMS SHOULD BE INCREASED

These programs are funded by contributions authorized or mandated under Federal milk-marketing orders, State laws, and cooperative plans or provided under voluntary programs. In some cases producers may request and receive refunds. In 1978 producers contributed about $53 million to promotion programs.

Not all producers help finance these programs. As a result, noncontributors are benefiting from the investments made by others, and the overall program suffers from lack of financing. Also, mandatory programs without refund provisions have been most effective in obtaining funds, and contribution rates set as a percentage of sales are more effective then a fixed rate per hundredweight of milk.

GAO believes producer participation in financing dairy promotion programs could be increased by eliminating the refund provision and making promotion provisions a part of all Federal milk-marketing orders or establishing a Federal nationwide producer promotion program. More uniform participation in funding promotor programs would remove inequities as well as generate increased contributions. Increased contributions should help the industrial promote consumption of dairy products, then by reducing Government purchases of surpluses. (See pp. 61 to 70.)

GAO recommends that the Congress either—

Establish a Federal nationwide producer promotion program with the contribution rate set as a percentage or sales or

Improve the promotion programs under current Federal milk-marketing orders by (1) eliminating the refund provision in Federal order, (2) making mandatory promotion provisions a part of all Federal orders, and (3) setting the contribution rate as a percentage of sales. (See p. 71.)

OTHER DAIRY POLICY ALTERNATIVES

Other alternatives available for reducing surpluses include—

Production controls, such as producer quotas and penalties, and

New concepts, such as target prices and deficiency payments, a national milk-marketing order program, and deregulation of the industry.

These alternatives and their potential consequences are discussed in chapters 4 and 6.

AGENCY COMMENTS

According to the Department, GAO's report is comprehensive in that it covers the many alternatives to the present program that have been discussed in recent years. (See app. VI.) Also, it is most timely because there now is a consensus that the milk support-price program is not performing as it should, as is evidenced by this year's heavy price-support purchases and the excessive Government costs. The Department said that a dialogue on dairy policy has already begun among producers, the industry, consumers, and the administration. It also said that GAO's report should make an important contribution to the ongoing discussion.

The Department did not take a specific position on GAO's recommendations to improve the present price-support standard or any of the alternative milk-pricing standards. It disagreed, however, with the recommendations to either establish a Federal nationwide producer promotion program or improve the promotion programs under current Federal milk-marketing orders. It said that, as a general policy, the Department does not support mandatory advertising and promotion programs for any commodity.

The Department's comments and GAO's evaluation of them are discussed on pages 28, 49, 59, 71, and 89.

STATEMENT
of
WARREN S. CLARK, JR., Executive Director
AMERICAN DRY MILK INSTITUTE, INC.

My name is Warren S. Clark, Jr. I am Executive Director of the American Dry Milk Institute, headquartered in Chicago, Illinois. The American Dry Milk Institute is a non-profit organization comprised of cooperative and independent manufacturers of dry milk products. Members of the American Dry Milk Institute manufacture a majority of the dry milk products, including nonfat dry milk, dry whole milk and dry buttermilk, produced in the United States. Our industry functions primarily in accordance with the fluid milk supply-demand situation existing at any given time -- that is, milk not utilized for beverage consumption and other perishable consumer uses is processed into manufactured milk products (including the various dry milks) for commercial utilization and/or storage for future use. Without the flexibility of our industry to function in this manner, serious problems would confront all segments of the dairy industry -- from the farmer who produces the initial raw product, to each one of us who consumes dairy products in their various processed forms.

As we view the situation, current dairy support program considerations center essentially in two areas: *(1) a long-term Production-Utilization relationship whereby production in some manner can react more directly -- and with less burden and delay -- to utilization, while still returning a fair income to farmers, thus ensuring the maintenance of an adequate supply of milk;* and, *(2) an immediate program for utilizing the CCC-owned products of butter, cheese and nonfat dry milk so that costs of the dairy support program may be cut drastically in the shortest possible time.* Various proposals to accomplish the first consideration already have been presented to you and, thus, will not be addressed by us. The focus of recommendations and comments of our industry will relate to the second important consideration listed -- that of reducing stocks of CCC-owned dairy commodities as quickly as possible, to lower total monetary outlays for the dairy support program. Our objective is to present subject concepts to you for further exploration and possible implementation.

Our comments are as follows -

1. Increase the use of CCC-purchased dairy products in PL 480 commodities.

This is neither a new request on our part nor one that has not been presented for consideration earlier. Food For Peace, PL 480, Title II commodity products for consideration include: wheat soy blend, corn soy milk, instant corn soy milk, whey soy drink, soy-fortified bulgar, soy-fortified bread flour, soy-fortified cornmeal, soy-fortified sorghum grits and soy-fortified rolled oats. Only corn soy milk, instant corn soy milk and whey soy drink contain dairy products. Why not a milk-fortified bread flour? While 12% NDM likely could not be used, as is the level of soy in this product, certainly 4-6% easily could. Or, how about 15% milk in place of the 15% soy in soy-fortified cornmeal? These are examples of various blended and processed food products that seemingly are naturals to contain dairy ingredients as part of their formulation.

It is our understanding that under the terms of the Kasten-Gunderson Amendment to PL 480, the Secretary of Agriculture has discretion to establish the value of dairy products taken from CCC stocks for PL 480 use and that the 19¢/lb value for NDM of a year ago has been replaced with a value of 5¢/lb in FY '83. Yet, projections are to utilize the same volume of milk as a year ago (40 million pounds), rather than 4-times that amount (some 150 million pounds), which could be used without increasing budget expenditures. What is happening to the "savings" realized by maintaining the allocation of NDM at 40 million pounds?' Is there a reallocation of funds -- away from dairy and for the purchase of another commodity -- rice? If so, why -- especially at this time of large dairy surpluses -- and why does the Agriculture Administration continue to blame the dairy program when it ignores this option as one that would assist in alleviating the current problem?

2. Expand exports of CCC-held dairy commodities.

We support USDA actions recently taken to further exports of CCC-held dairy products. While it only represented 14.5 million pounds of nonfat dry milk, we believe that the recent barter with Jamaica was significant. Every 15 million pounds of product removed from storage is a step in the right direction -- a lowering of product inventory and storage costs. We sincerely hope the next barter involving dairy commodities won't be another 15 years away. The Department issues on a weekly basis Export Briefs. In a recent issue (copy attached), are inquiries for dry milk shipments to Hong Kong (500 MT), Pakistan (quantity unspecified), and the Netherlands (500-1,000 MT monthly). And, this issue appears to not be significantly different from most. We request that you encourage the Department to be more aggressive in moving surplus commodity products into export channels -- such as these, the earlier contracted for and continuing sales to Conasupo, etc.

3. Domestic distribution of CCC-held dairy products.

a) Domestically, surplus process cheese, and butter, now are being distributed by state agencies to eligible recipients (primarily to non-profit nutrition programs involving children and the elderly). While unfortunate, as unemployment continues to rise, more people will be in need of assistance. Supplying them with wholesome and nutritious surplus dairy products certainly will be less costly than direct payment programs, while at the same time helping to resolve the current, critical dairy surplus program.

b) A second domestic program that would afford the utilization of nonfat dry milk stocks is to utilize "milk bread, rolls and buns," in government supported nutrition programs. The FDA standard of identity for milk bread, an existing commercial product, specifies 8.2% nonfat dry milk on a flour basis. *This represents an excellent opportunity to furnish NDM, from CCC stocks, to bakers for incorporation into milk bread for utilization in school lunch and other similar programs.*

c) In addition to increasing the utilization of dairy products among civilian segments of the population, a united effort should be made to increase their utilization by the Department of Defense. Recent publicity noting Army and Navy -- but not Air Force -- utilization of surplus dairy products certainly does not speak well for inter-Agency and inter-Departmental communication and cooperation. Significant quantities of nonfat dry milk, as well as cheese and butter, could be incorporated into foods prepared and served in the mess facilities of all military services. We submit that better cooperation between government agencies in working toward common goals would result in a lesser cost of the dairy support program and far fewer taxpayer dollars going unnecessarily into military food costs.

4. Fortify fluid milk products.

For some time now, the feasibility of increasing the solids-not-fat (and thus the total solids) content of market milk has been under discussion. By increasing the minimum solids-not-fat level from the existing 8.25% to 8.6 or 8.7% would result in a far superior product, flavorwise and nutritionally, while at the same time effecting a significant utilization of milk solids within the dairy industry itself. If our information is current, California requires 8.7% solids-not-fat (12.2% total solids) in milk at the time of delivery to consumers. Sales figures released by that State's Department of Food and Agriculture show encouraging gains in the sales of all fluid milk products (whole, lowfat and nonfat milk) from 1978 to 1979 and again in 1980. Mr. Chairman, we understand that this endeavor would require a period of time for implementation on a national level. However, approached regionally, or by individual states, a considerable amount of NDM could be removed from CCC stocks in a relatively short period of time.

5. Re-establish U.S. casein industry.

A suggestion which we made in our January 27 communication to President Reagan, and subsequently to Trade Representative Brock (copies attached), is that serious consideration be given to re-establishing a casein industry in the US. We have offered our industry's expertise on this subject and suggested the initiation of a joint USDA-dry milk industry study to consider establishing *a contract program under which a specified quantity of casein would be manufactured each year and which product would: (1) utilize a significant quantity of US-produced milk; and (2) find immediate use in the domestic marketplace so that no laboratory fees, or government inventory, transportation and storage costs would be involved.* The utilization of fluid milk for this purpose would divert that quantity of milk from cheese and/or nonfat dry milk manufacture -- and possible procurement by CCC.

6. Control unnecessary dairy imports.

Mr. Chairman, directly tied to the foregoing recommendation is a subject that I know has been troubling you, this Subcommittee, and the full Agriculture Committee for some time -- that being lack of serious attention to placing import restrictions on dairy products which currently play havoc with the domestic dairy industry. As examples, allow me to mention but two of these imports:

> Casein/caseinates - Attached is a Table showing yearly casein imports (since 1956) and the percent such imports represented of total U.S. dry milk and whey production. For the most part, such imports have steadily increased until, for the period 1976-80, they comprised 5.9% of domestic dry milk and whey production -- up from 3.9% during the 1956-60 period. *On the basis of actual product quantities, during the 26-year period (1956-1980) domestic dry milk and whey production increased about 25%; casein imports increased over 100%!* Why is the domestic dairy industry made to bear the burden of commodity surpluses exclusively, when an important reason for the surplus is this glut of casein imports (-- totally without restriction)? Admittedly, a decrease in casein imports was reflected in 1981 -- when serious consideration was being given to setting restrictions. What better political ploy than self-restriction -- temporarily! During the first quarter of 1982, casein imports are nearly the same as in 1981. However, a new dimension now has been added, that of Total Milk Proteinate (TMP). This product, now being manufactured in New Zealand -- and boldly touted for marketing primarily in the U.S. -- already has begun to be imported, and without restriction. Yet, this product is skim milk that has been concentrated through processing so that a high (94%) protein level is obtained. Notwithstanding, the product is allowed to enter the U.S. without restriction, thus widening the already troublesome gap between our domestic milk solids supply and demand. I trust that all of you will be hearing from your constituents on this matter, if you already have not been contacted.

The purpose in citing these examples to you, Mr. Chairman, is not to criticize our International neighbors and partners, but *to emphasize the need for us to take appropriate and meaningful steps here at home* -- right within our own continental U.S. -- *to help solve our immediate problem of an imbalance between milk supply and demand.* Why add to this problem by allowing such unrestricted dairy product imports? Your Subcommittee can be most influential in bringing this matter to a satisfactory resolution.

- * -

Mr. Chairman, we appreciate having the opportunity to present these thoughts to you and we hope our comments may be useful when considered with all others you have received. Obviously, dairy price support program activities are two-fold (involving supply and demand), and the aspect we have addressed today *must* be a part of the overall resolution of the existing problem. We again respectfully request your consideration of each proposal we have offered as a means of alleviating the current nonfat dry milk surplus; and we ask your assistance in giving direction to Secretary Block and his staff so they may act in the best interest of dairy producers and processors, government programs established to offer stability and ensure an adequate supply of safe milk, and most importantly, consumers of dairy products in the U.S. and throughout the World.

Thank you.

[The following material was submitted by Warren S. Clark, Jr., American Dry Milk Institute, Inc.]

EXPORTS BRIEFS

(The following trade items have been gathered from Agricultural Attache and other government reports as a service to U.S. exporters of food and agricultural products. In supplying the trade leads the Department of Agriculture does not guarantee reliability of the overseas inquirer. Your best source for further information on these trade leads is the listed foreign firm originating the inquiry. You may also contact the Export Promotion Division, FAS, (202) 447-7103.)

0355—Food rations (Austria). Several tons of emergency nonperishable foods for storage in defense shelters needed. Quality: Army rations. Need ASAP. Quote C&F Hamburg or Rotterdam. Contact: Dr. G.H. Chlupac, Handelsagentur, Streckerg 9, A-2345 Brunn Am Gebirge, Austria. Phone: 02236/87443.

0356—Rice, lentils & other freeze-dried foods (W. Germany). Interested in instant rice pre-cooked, max. 4 percent moisture, in bulk approx. 40 tons; dehydrated lentils, cooking time max. 10 minutes, in bulk 100 tons/year; other freeze-dried food products. Bank ref: Commerzbank Ag, 4400 Muenster. Turqman. Contact: L. Van Den Bosch, FDF Freeze-Dry Foods Trading Co. Ltd., IAD, 4044 Telgte, Otto-Hahn-Str. 2, Dusseldorf, W. Germany. Telex: 892721. Phone: 2504/3090.

0358—Sugar beet pellets (Pakistan). In need of sugar beet pulp pellets for animal feed, 1,000 mt, 10/13 mm diameter with molasses and without. Bulk shipment. Ship July/August, 1982. Quote: FOB & C&F, Karachi. Bank ref: Bank of Tokyo Ltd., Kamar House, Karachi. Contact: Wahid A. Vadhariya, Andrew Agency, 3/39 Al-Yousaf Chambers, Shahrah-E-Liaquat, New Chali, Karachi, Pakistan. Telex: 25380 UNITE PK. Phone: 211413.

0359—Plants (Austria). Supplier of different young foliage plants, and cuttings of foliage plants, especially Yucca plants, wanted. Need 5,000-10,000 annually. Ship in cartons, want ASAP. Quote CIF Wien. Bank ref: Volksbank Neubau, Gatterburgg., A-1190 Wien. Contact: Helmut Robitza, Gartnerei Robitza, Agnesg. 27, A-1190 Wien, Austria. Telex: 1 32887. Phone: 44 27 30 or 44 11 16.

0361—Snack foods (Malta). Wishes to locate U.S. company interested in a sole licensing arrangements for the local manufacture of snack foods, particularly potato chips, corn chips, pretzels and cheese twists, mainly for export. U.S. company to provide the technical know how and the exclusive use of a brand-name in Malta as well as in other countries where products may be exported. The local company will finance the project and find suitable export markets. Contact: Emmanuel Ellul, Chairman, Ellul Brothers Ltd., 27 Racecourse Street, Marsa, Malta. Telex: MW 845 MODPLA. Phone: 620553. Cable: MODPLACON-Malta.

0362—Logs (Hong Kong). Suppliers of logs (Oregon Pine, Douglas Fir, Hemlock, Spruce) needed. Quantity approx. 30,000 cubic meters per year of each. Quality No. 2 & 3 Grade, diameter 12 inches minimum, length 15 feet to 20 feet. Shipment bulk (the port allows 10,000 cubic meter per shipment). Supplies needed beginning April. Quote: CIF Huang-Pu, Guangdong Province, PRC. Bank ref: Bank of China. Contact: Wu Zhi-Chao, China Int'l Trust & Investment Corp., 501, Bank of China Bldg., Central, Hong Kong. Telex: 62685 CITIH HX. Phone: 5-211-391.

0363—Soybeans (Hong Kong). In the market for 4,000 mt soybeans, First Grade. Bulk shipment. Need ASAP. Quote CIF Hong Kong. Bank ref: Yien Yieh Bank. Contact: C. P. Tsang, Wah Chak Trading Co., 1401-2 Yien Yieh Commercial Bank Bldg., 242 Des Voeux Road, Central, Hong Kong. Telex: 65642 ALTD HX. Phone: 5-438-238, 5-446-904.

0364—Precooked meals (Colombia). Interested in vacumm packed and/or frozen TV dinners or precooked meals. Need samples (cartons, containers, etc) to obtain customs position. This is a new business in Colombia. Good quality required. Must list ingredients & percentage of each plus nutrient content. Send sample carton or containers either full or empty, with packing. Need ASAP. Quote: FOB plants and/or Ports & Airports. Bank ref: Banco De Colombia, Bogota. Contact: Ricardo Pachon, Industrias Internacionales Integradas, Calle 36 No. 14-52, Piso 3, Apartado 52321, Bogota, Colombia. Phone: 232-4115, 232-1256.

0365-0366—Soybean meal, wheat (Colombia). Wants soybean meal & wheat. Quantity: 20,000 tons/year, soymeal and 100,000 mt/year wheat. Wants to be representative of U.S. firm in Colombia. Quality: soybean meal: protein—47.0 percent min, fiber 3.3 percent max, fat 0.5 percent min, moisture 12.0 percent max. Wheat: Hard Red Winter U.S. No. 2. Ship in bulk. Will need shipments throughout the year. Each wheat shipment from 15,000 to 20,000 mt. Phytosanitary certificates required. Also need protein certificates for soy meal and wheat. Quote: FOB U.S. Gulf and/or

C&F Colombian Port (Atlantico Pacific) for soy meal and wheat. Bank ref: Banco Colpatria. Contact: Norman De La Roche, Compania Comercial Roche Ltda, Carrera 10 No. 28-49, Piso 25, Edificio Bavaria, P.O. Box 26002, Bogota, D.E., Colombia. Telex: 45219 ROCHE CO., 43111 ROCHE CO. Phone: 281-1000.

0367—Mung beans (Hong Kong). First Grade dried green mung beans needed ASAP. Want 4,000 mt, bulk shipment. Quote: CIF Hong Kong. Bank Yien Yieh Bank. Contact: C.P. Tsang, Wah Chak Trading Co., 1401-2 Yien Yieh Commercial Bank Bldg., 242 Des Voeux Road, Central, Hong Kong. Phone: 5-428-238, 5-446-904. Telex: 65642 ALTD HX.

0368—Powdered milk (Hong Kong). Want 500 mt powdered milk for adults and children. Prefer 1 lb. per bag and 48 bags to one outer carton. Need ASAP. Quote: CIF Whampao China. Bank ref: The Sanwa Bank Ltd. Contact: Dennis C.K. Wong, Lee Tung Company, Shop 2, Kwan Yick Building, Phase 2, 169-178, Connaught Road, G/F, Hong Kong. Telex: 60303 LTHKG HX. Phone: 5-493-521, 5-493-522, 5-482-800.

0369—Dairy products (Pakistan). Container lots of butter, cheddar cheese and milk powder requested; table grade. Bulk and standard retail package. Monthly shipments. Quote: FOB. Bank ref: American Express Bank, Karachi.

0417—Joint Venture, grain products (Nigeria). Messrs. Obokun Flour Mills Industries Limited, Private mail box 12020, Ilesha, Oyo State, of Nigeria, is interested in Joint Venture with dependable U.S. Partner(s) for the production of flour, semolina, corn flakes, quaker oats and custard, etc. This company which has just started, envisages its equity participation as follows: Nigerian Partner 60 percent and foreign partner 40 percent. Its total investment requirements would amount to about 15-20 million and a market size of about 72,000 mt. per year. Bank ref: WEMA Bank, Ltd., Lagos and Prince Paul Adetokunboh Adeyemi, Chairman and Prince Theophilus Adehunime Gbadebo as Partners.

0418—Baby Foods (Netherlands). Company is interested in contacting producers of baby food milk (liquid and powder). Quote: CIF-Bangladesh. Bank ref: ABN Eindhoven. Contact: Mr. Reshib, Oriental Trading Import/Export, Goundnodlaan 11, 5653 Ex Eindhoven, Netherlands. Phone: (0) 40-525056.

0419—Milk powder (Netherlands). Desires 500-1,000 mt./month of skimmed milk powder and spray dried whey powder. Quality: Admi-extra. Health certificate and Certificate of origin required. Packaging: 4/5 ply paper bags with poly inner bag (preferably heat sealed). Delivery April-December 1982. Quote: F.O.B. West Coast and/or East Coast Ports. Bank ref: Rabobank, Utrecht. Contact: Mr. H. Stutz, Jalutra Trading Coy B.V., P.O. Box 407, 5460 Ak Veghel, Netherlands. Telex: 50915 (JAL). Phone: (0)4130-41155.

0421—Corn Tender (Egypt). Invitation for Bid No. GASC/41/82/ARE for the procurement of 125,000 metric tons of No. 2 or better yellow corn, in bulk, to be shipped in April, 1982. The commodity is being financed under A.I.D. Loan 263-K-055. Bid opening will be March 23, 1982 at 3:30 p.m. EST, Washington, D.C. A complete copy of the Invitation for Bid, including specifications, terms and conditions, may be obtained by written request accompanied by a check or money order in the amount of $10.00 payable to The Embassy of the Arab Republic of Egypt. Requests should be addressed to The Embassy of the Arab Republic of Egypt, Commercial and Economic Office, 2232 Massachusetts Avenue, N.W., Washington, D.C. 20008. Please assure that complete business address, city, state, zip code, and telephone/telex number are included in your request. The purchaser is the General Authority for Supply Commodities, 24 Goumhoris Street, Cairo, Arab Republic of Egypt.

0422—Confectionery products (Colombia). Confectionery products wanted are nuts salted or roasted wholesale; candy and other confectionery products, nuts salted or candy covered, packaged. Firm is one of the largest importers of fresh fruits and canned products in the country. Contact: Joseph G. Daccarett, Frigorifico De La Costa Ltda., Aparado Aereo 511196, Barranquilla, Colombia. Cable: FRICOSTA.

0423-0424—Grains, cured meats, cheese (Colombia). Firm interested in the importation of grains lentils, cured meats, cheese and related products. Also interested in acting as sole representative for north area of Colombia. Requests price lists. Contact: Mantilla C. Aurelio, International Commerce Importing & Exporting Co., Apartado Aereo 50277, Barranquilla, Colombia. Cable: INTERCONN.

AMERICAN DRY MILK INSTITUTE, INC.,
Chicago, Ill., January 27, 1982.

Hon. RONALD REAGAN,
President of the United States,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: The American Dry Milk Institute, national trade association of the dry milk industry, representing the majority of both processors and production of dry milks in the U.S., respectfully submits these comments to you in regard to a critical industry situation brought about by the unrestricted importation of casein.

We understand that the International Trade Commission (ITC) is submitting a report to you expressing their belief that current casein imports are not interfering with the domestic support program for dairy products as administered by the Department of Agriculture. As you know, this opinion is advisory and action on your part need not reflect the ITC interpretation.

In June, 1981, the U.S. Department of Agriculture/Economics & Statistics Service Report entitled "U.S. Casein and Lactalbumin Imports: An Economic and Policy Perspective" noted that in 1980, if no casein or caseinate products had been imported, a $300 million saving to the Commodity Credit Corporation (CCC) would have been realized. We consider this sum to represent a significant potential saving in governmental expenditures, that would be brought about through lowered CCC purchases of dairy products currently being displaced by imported milk protein (casein), while at the same time being supportive of your firm position to reduce unnecessary government expenditures.

We believe that it was primarily on the basis of this report that Secretary of Agriculture Block submitted his June 24 recommendation, with which you concurred and subsequently instructed the ITC to conduct its recent Section 22 investigation, that there was reason to believe casein was, or was practically certain to be, imported under conditions and in quantities to materially interfere with the USDA support program for dairy products. We urge you not to ignore the expertise of the Department of Agriculture on this subject.

Specifically with regard to the impact of casein imports on nonfat dry milk—only one commodity product affected by these imports—we wish to advise you that domestic nonfat dry milk production has remained relatively constant, at between 900 million and 1,100 million pounds yearly, during the period 1976–1980. However, domestic utilization has decreased steadily from 710 million pounds in 1976 to 520 million pounds in 1980. Domestic use as a percent of production showed a drastic reduction, from 80.7 percent in 1976, to 44.7 percent in 1980. During the first eleven months of 1981, that utilization was approximately 34 percent. We believe this decline in commercial sales of nonfat dry milk results primarily from the unrestricted importation of casein and casein products, which directly replace nonfat dry milk in numerous end-use markets, inasmuch as nonfat dry milk that is not sold commercially usually is purchased under the terms and conditions of the dairy support program.

In view of the foregoing, we respectfully request that you immediately act, independently of the ITC expression of belief, to effect a limitation to 50 percent of the average yearly quantity of casein imported (139.1 million pounds) during the past 5 years (1976–80), and that, further, the approximately 70 million pounds of casein so allowed for importation be on a license basis whereby certification is given that these products will be utilized in applications and products for which they are essential and non-substitutable. In addition, we recommend that you request the Department of Agriculture to develop a contract program for the manufacture of casein domestically. Our industry stands ready to consult with and assist the Department in this endeavor.

It is our sincere request that this important matter of commerce be promptly addressed, and resolved administratively, in order to avoid legislative action that, in the past, has been given consideration and which again has received attention following expression of the recent ITC position.

With appreciation for your consideration of these comments which relate directly to the economic well being of our entire country we remain.

Sincerely yours,

WARREN S. CLARK, Jr., Ph.D.
Executive Director.

THE U.S. TRADE REPRESENTATIVE,
Washington, D.C., February 10, 1982.

Dr. WARREN S. CLARK, Jr.,
Executive Director,
American Dry Milk Institute, Inc.
Chicago, Ill.

DEAR DR. CLARK: I have been asked to respond to your letter of January 27 to President Reagan which referred to the U.S. International Trade Commission's (ITC) recently completed report on the impact of imports of casein and lactalbumin on the Federal milk price support program.

The ITC report was submitted to this Office on January 29. We have initiated a comprehensive review of the report and supporting documentation—including a transcript of your testimony before the Commission and your post-hearing statement.

We appreciate receiving your additional comments. I can assure you that your views will be fully considered in making a final determination.

Very truly yours,

William E. Brock.

AMERICAN DRY MILK INSTITUTE, INC.,
Chicago, Ill., February 16, 1982.

Mr. WILLIAM E. BROCK,
The U.S. Trade Representative,
Washington, D.C.

DEAR MR. BROCK: Thank you for your February 10 letter acknowledging our January 27 communication to President Reagan regarding the International Trade Commission's (ITC) recent report on the impact of casein and lactalbumin imports on the domestic support program for dairy products as administered by the Department of Agriculture. We are pleased to learn of your plans for a comprehensive review of this report, particularly in view of the $300 million saving the Commodity Credit Corporation (CCC) would have realized if no casein had been imported in 1980. Further, we again wish to emphasize the advisability of initiating a joint USDA-dry milk industry study to establish a contract program for the manufacture of casein domestically—which product would find immediate use in the domestic marketplace. As previously indicated, our industry will be pleased to work cooperatively with the USDA in this area, as we believe it offers an immediate, viable alternative to the continuing increase in nonfat dry milk stocks procured and held by the CCC.

Thank you, again, for your consideration of this matter which is of prime importance both to government and industry at this time.

Sincerely yours,

WARREN S. CLARK, Jr., Ph. D.,
Executive Director.

Production of domestic dry milk and whey products and imports of casein, United States, 1956-81

Year	Dry milk products				Whey Products					Total dry milk and whey	Casein imports	Casein percent of total	
	Nonfat dry milk	Dry whole milk	Dry butter-milk	Dry skim milk	Lactose	Dry whey 1/ 2/	Concen-trated whey	Modified whey	Whey in wet blends				
	Million pounds												
1956	1,489.9	110.3	64.3	19.3	33.3	197.8	72.4	---	---	1,987.2	70.7	3.6	
1957	1,623.9	103.2	70.4	21.2	37.5	211.7	55.7	---	---	2,123.5	74.6	3.5	
1958	1,709.7	87.7	77.2	21.3	35.4	233.3	48.6	---	---	2,213.0	91.3	4.1	3.9
1959	1,723.2	90.4	81.5	23.3	47.3	247.3	41.3	---	---	2,254.3	94.5	4.2	
1960	1,818.6	98.0	96.4	25.9	50.1	276.9	34.8	---	---	2,390.7	92.2	3.9	
1961	2,019.8	81.7	89.0	27.8	35.5	271.5	39.7	---	---	2,565.1	101.8	4.0	
1962	2,230.3	86.1	86.4	30.5	52.3	284.8	34.3	---	---	2,804.7	95.6	3.4	
1963	2,106.1	91.0	87.5	23.6	39.4	316.9	45.7	---	---	2,710.3	87.9	3.2	
1964	2,177.2	87.6	92.0	22.0	41.3	371.9	58.4	---	---	2,850.5	108.5	3.8	
1965	1,988.5	88.6	87.4	24.6	65.0	404.3	60.4	---	---	2,718.9	91.8	3.4	
1966	1,579.8	94.4	76.2	26.1	65.1	470.9	77.5	---	---	2,390.1	107.9	4.5	
1967	1,678.7	74.3	72.6	30.3	79.2	492.8	71.1	---	---	2,499.1	99.7	4.0	
1968	1,594.4	79.8	70.4	27.0	83.0	498.8	63.3	---	---	2,416.7	115.1	4.8	4.8
1969	1,452.3	70.2	66.5	14.4	92.9	516.5	63.9	---	---	2,276.8	116.1	5.1	
1970	1,444.4	68.9	59.5	11.7	97.6	621.0	90.0	---	---	2,393.1	135.3	5.7	
1971	1,417.6	72.2	51.7	11.4	85.2	679.4	114.8	---	---	2,432.3	105.9	4.4	
1972	1,223.5	75.2	49.5	12.9	87.3	762.0	70.1	---	---	2,280.5	105.4	4.6	
1973	916.6	78.0	43.3	9.8	113.2	772.4	69.5	---	---	2,002.8	112.8	5.6	
1974	1,020.0	67.7	45.3	5.6	130.8	851.4	60.9	---	---	2,181.7	113.3	5.2	
1975	1,001.5	63.1	42.8	7.9	139.0	595.6	87.8	172.0	81.3	2,191.0	58.4	2.7	
1976	926.2	78.1	46.3	5.9	137.4	661.8	139.0	165.1	73.8	2,233.6	112.1	5.0	
1977	1,106.6	69.4	53.2	7.9	108.8	627.8	145.5	179.0	68.3	2,366.5	144.2	6.1	
1978	920.4	74.6	47.6	6.5	114.5	711.5	160.3	205.0	96.1	2,336.5	137.1	5.9	5.9
1979	908.7	85.3	44.7	6.1	109.2	732.9	98.7	176.8	102.8	2,265.2	150.8	6.7	
1980	1,160.7	82.7	43.9	6.9	140.2	691.0	81.4	192.8	144.1	2,543.7	151.2	5.9	
1981	1,305.8	92.1	44.3	7.8	153.5	760.4	95.6	163.4	159.8	2,787.7	127.8	4.6	

1/ May include some duplication of dry and concentrated whey prior to 1972.
2/ May include some modified whey and whey in wet blends prior to 1975.

Source: ESS, USDA.

THE KROGER CO.,
Cincinnati, Ohio, June 18, 1982.

Hon. THAD COCHRAN,
U.S. Senate,
Russell Senate Office Building,
Washington, D.C.

DEAR THAD: I am writing to express Kroger's concern over some aspects of the federal government's dairy programs, and to urge that Congress take substantive action as soon as possible to protect the interests of consumers and assure the long-term economic health of the dairy industry.

The Kroger Co. is the nation's second largest food retailer, with 1,250 supermarkets operating in 20 states. Kroger is also a major processor of milk and other dairy products. Our company's nine fluid milk dairies process over two billion pounds of milk per year to be sold in Kroger food stores. We buy from dairy farmers in several states more than 200 million pounds of raw milk each month. In addition to our fluid milk plants, Kroger operates two major cheese plants as well as ice cream and ice cream novelty facilities.

As both a retailer and processor, our goal has always been to provide our customers, more than two million people each day, with a broad array of high-quality dairy products at a reasonable price. We have always recognized that our goal can be accomplished only if the United States dairy industry is economically healthy.

The industry can only be healthy over the long term when milk production and consumption are in reasonable alignment. To get this job done, and with as little disruption as possible, The Kroger Co. urges your consideration of the following:

The now-scheduled October 1 increase in the milk price support must be cancelled.

The Secretary of Agriculture needs to be given more flexibility to operate the price support program.

The Congress should establish a floor price support level not lower than $12.00 per cwt.

Future adjustments in the milk support price should be legislatively tied to supply/demand conditions in the dairy industry.

Admittedly, this is a complicated issue. The farm income, consumer cost and tax dollar implications of the various adjustment options now being discussed are quite diverse. Therefore, I wanted to share with you our position on this issue as well as the rationale behind that position.

I first want to point out that we have no disagreement with the objectives of the government's price support and milk marketing order program. We support their continued existence. We have become increasingly concerned, however, that these programs have sometimes been operated in ways that threaten the long-term viability of the domestic dairy industry.

The 1977 dairy price support bill, which was ultimately made effective through the 1980 marketing year, was, by almost any standard, excessive. That legislation required the Secretary of Agriculture to establish the price support at 80 percent of parity and to adjust the support semi-annually with no flexibility for a consideration of the demand side of the market.

The result of that program, was predictable. Milk production increased from a roughly adequate 123 billion pounds in 1977 to about 135 billion pounds this year, while consumption remained at about 120 billion pounds. Some of the very substantial surplus is being used in government feeding programs, and we support that. But about 12 billion pounds—nearly 10% of the total production—must still be bought and stored by the government at an estimated cost of over $2.5 billion.

Obviously, this situation cannot continue. The costs of this program are simply too great for the American taxpayer. We must, for the good of the dairy industry and for the sake of the taxpayers, bring milk production and consumption back into closer alignment.

Kroger believes, however, that any changes in the milk price support program to accomplish this objective must be based on some specific principles. First, changes in the program must be accomplished in a manner that does not severely disrupt the milk production industry. Changes that are too dramatic could create substantial disruption and make a bad situation even worse. Since the federal government helped create the current imbalance between supply and demand, we believe the government should not now force all of the adjustment costs for these policy mistakes onto the back of the dairy industry.

Second, changes in the program should be simple to implement and easy to understand. Complicated bureaucratic program modifications would likely do more to confuse the situation than to solve it. The overriding government objective these days should be to reduce the regulatory burden, not to increase it.

Finally, the market forces of supply and demand must be given an expanded role in directing resource use in the dairy industry. For that to occur, current production patterns must not, by any bureaucratic rule, be set in concrete. Furthermore, the basic role of the milk support program must be re-established as a safety net, providing a certain measure of price stability without artificially increasing production or reducing demand.

Generally speaking, the support price for milk should be low enough over the years that market price movements—not changes in the support price—provide the primary mechanism for obtaining production adjustments.

The four suggestions presented earlier in this letter were developed with these principles in mind. Those suggestions are outlined again below with a bit more detail.

1. The now-scheduled October 1 increase in the milk price support must be cancelled. There is absolutely no market justification for a price support increase with production running at least 10 percent above potential consumption. While the farm income situation is not good at present, increasing the milk price support now would send exactly the wrong signal to both producers and consumers.

2. The Secretary of Agriculture needs to be given more flexibility to operate the price support program. We share the widely-held concern that too much flexibility might create unnecessary uncertainty. On the other hand, we feel strongly that rigid rules for adjusting prices just don't work. The experience of the late 1970's, which, in many ways, is responsible for the current production/consumption imbalance, teaches us that.

3. To protect dairy farmers, the dairy processing industry, and consumers from the potential destabilizing effects of rapid and dramatic fluctuations in milk production, the Congress should adopt a floor price in the dairy program. Based on studies of production response to price changes, a five to eight percent reduction in the current milk price support would appear adequate to bring supply and demand back into approximate alignment. A reduction in the price support of this amount would imply a new floor price of $12.00 to $12.50 per hundredweight.

4. To assure that future milk price support adjustments would not interfere with the natural workings of the marketplace, the Congress should also require that projected product removals by the Commodity Credit Corporation be used to help indicate whether price support adjustments are needed. Using past experience as a guide, this would suggest that upward adjustments in the milk price support would not be allowed whenever CCC removals are projected to exceed about 2.5 billion pounds of milk equivalent per year. Normally, removals of that amount would be adequate for use in the government feeding programs.

This letter is long, but as you may have gathered, we believe this issue is extremely important and worthy of your special attention. I hope you will give serious consideration to our thoughts and suggestions and that you will help assure corrective actions are taken to put the dairy program back on track as early as possible.

Please give us a call if we can answer any questions or be of any assistance at all to you or the members of your staff.

Sincerely,

JACK W. PARTRIDGE, Jr.

FOOD FOR THE HUNGRY INTERNATIONAL,
Scottsdale, Ariz., June 21, 1982.

Re Senate bill S. 2533.

Senator THAD COCHRAN,
Chairman, Senate Agricultural Committee,
Washington, D.C.

On behalf of Food for the Hungry International and the millions of hungry people around the world, I would like to request that the Senate Agricultural Committee consider the distribution of surplus dairy products to be donated to feed the hungry abroad.

Food for the Hungry daily feeds or distributes food to 59,500 people in 11 countries through ongoing programs. In addition to this, we provide food to 10 other countries in which we do not have programs. In these countries we provide the food for other agencies to distribute. We have shipped approximately 3,000,000 pounds of food since January, 1981 to such programs.

As you can see, the need is great for donated commodities such as the dairy products in question. It is our hope that the Committee will consider seriously the release of government dairy products to feed the hungry of the world.

Sincerely,

TETSUNAO YAMAMORI, Ph. D.,
Executive Vice President.

STATEMENT OF THOMAS G. KRAJEWSKI, COOPERATIVE LEAGUE OF THE USA

The Cooperative League of the USA is a national association of all types of cooperatives. Our membership ranges from farm supply and marketing to recreational equipment and from preschool child care to food, housing, health care and funeral societies.

While the Cooperative League has a diverse group of members, all of the members agree on the cooperative form of business. They agree that businesses owned and controlled by the members they serve are good for the members and good for the country.

We support S. 2587 for three reasons. First, this program was developed by the dairy farmers of this country through the National Milk Producers Federation. NMPF represents the vast majority of dairy cooperatives in this country. In turn those dairy cooperatives are owned and controlled by the majority of dairy producers. They developed S. 2587 at the request of the past administration and the current administration when they were asked to proposed changes to effectively deal with overproduction. Aware of the problem and wishing to correct it, they have developed the Dairy Stabilization Act of 1982.

This plan deserves the support of your committee and of Congress because it has the support of the majority of dairy producers. National Milk Producers has the ability to develop a consensus plan because of the unique democratic structure of cooperatives in this country. They used this democratic structure to develop a plan and then to present it to and gather approval from their members. Producers whose economic well-being and whose livelihood are affected by a program should have the right to help formulate it. It is our belief that this is best accomplished through representative organizations such as cooperatives and the NMPF.

A second reason why the Cooperative League supports this proposal is that it is the quickest and surest way to bring production in line with demand. Programs that simply cut the support price across the board will cause some farmers to increase production when their marginal costs are below the support price. Two more cows in empty stalls, a little more cheap but high quality feed are just two examples of methods to increase production at low costs. Other farmers will no doubt hold production steady or reduce production but who can say how much when no individual farmer's price is dependant upon his action. The value of the NMPF program is that it ties an individual's price to his production. Any program which fails to do that is destined to suffer from slippage and leakage. Under S. 2587 a dairy farmer is responsible for his own actions but he is not asked to take responsibility for the thousands of other dairy farmers in this country. The program proposed in S. 2587 gives an individual more control over his own economic destiny and reduces the reliance on government.

A third reason the Cooperative League supports S. 2587 is that it is the fairest method of reducing production and thereby reducing the cost of the program. It is unfair to charge farmers with the reduction of production without giving them the means to control it. A program of across the board cuts in the support price will reward those farmers who violate the best interests of the majority of farmers and punish those farmers who act in the best interest of the majority of dairy producers. A Darwinian program of the survival of the fittest is not necessary to accomplish reduced production. The milk-surplus problem should be solved by culling cows and not dairy farmers.

The NMPF plan puts the bulk of cost of the dairy price support program squarely and fairly in the hands of dairy farmers. The cost and success of the program will be their responsibility and they will share in the benefits of the program in relative proportion to their actions to reduce or increase production.

Finally, S. 2587 will stabilize the price thereby assuring all of our consumer and producer members and the general public of a continued supply of milk and dairy products at reasonable prices.

STATEMENT OF ROBERT L. AINSWORTH, DIRECTOR, WORLD VISION RELIEF ORGANIZATION

World Vision Relief Organization, a Christian humanitarian relief and development agency operating in over 80 countries of the world today, would like to register its support of Section 2(b) of S.R. 2533 as introduced by the Honorable Jesse Helms, Senator from North Carolina. Specifically, we strongly favor the part of this provision which would make available the excess dairy products for distribution through public and nonprofit private humanitarian organizations to areas outside the United States to alleviate world hunger.

World Vision is very much concerned and involved in addressing the needs of the poor and disadvantaged here in the U.S., but it is our view that the distribution of excess commodities, unless handled with great discretion and care, can often inhibit a sense of self worth on the part of recipients, and create an attitude of dependency on the welfare state. Certainly, the distribution of excess butter last fall with the ensuing near food riots is a prime example of how not to make such distribution. We would advocate the channeling of a portion of these excess products through existing nonprofit agencies ministering food aid to the poor and disadvantaged, with special emphasis on those agencies operating in our inner cities.

However, we would also argue that the bulk of these products, particularly the dry milk, should be distributed overseas where the need is so much greater and the lives of so many of the young hang in the balance each day. Even in these desperate situations the method of distribution is extremely important in avoiding the creation of dependency for recipients. Over the past 30 years World Vision, and similar humanitarian organizations working at the grassroots level, have learned how to use food items not only for alleviating immediate hunger needs, but also to assist in initiating programs of self help, both in local food production and other developmental programs. The immediate release of a portion of these dairy products to World Vision would allow us to distribute them directly to those who are suffering from severe hunger and deprivation, and would go a long way to assist us in helping people to help themselves. At present World Vision has urgent need for dry milk in certain areas of Africa, Poland, and, most recently, Lebanon. In addition, it would be extremely desirable to have the Commodity Credit Corporation assist in covering the costs associated with delivering these commodities to where they are needed.

We appreciate the efforts of the Senate Committee on Agriculture, Nutrition, and Forestry in attempting to improve the current milk price support program, and urge that they act favorably on this proposed bill.

II

97th CONGRESS
2d Session

S. 2533

To improve the milk price support program and provide additional authority for the disposition of dairy products.

IN THE SENATE OF THE UNITED STATES

May 13 (legislative day, May 11), 1982

Mr. Helms (by request) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To improve the milk price support program and provide additional authority for the disposition of dairy products.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Emergency Dairy Adjustment Act of 1982".

Sec. 2. (a) Section 201(c) of the Agricultural Act of 1949 is amended to read as follows:

"(c) The price of milk shall be supported at such level as the Secretary determines necessary in order to assure an adequate supply of pure and wholesome milk to meet current needs, reflect changes in the cost of production, and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs. Such price support shall be provided through purchases of milk and products of milk.".

(b) Effective only for the period beginning with the date of enactment of this Act and ending five years thereafter, section 416 of the Agricultural Act of 1949 is amended by adding at the end thereof the following new sentences: "Effective for the period beginning with the date of enactment of the Emergency Dairy Adjustment Act of 1982 and ending five years thereafter, such dairy products (1) may be donated, notwithstanding any other provision of law, for distribution to needy households in the United States, and (2) may be donated through foreign governments, international organizations, and public and nonprofit private humanitarian organizations for use outside the United States to alleviate problems of world hunger. Such donations for use outside the United States shall be made in accordance with such procedures as may be established by the President to assure that the donations complement other United States foreign assistance and are consistent with United States foreign policy objectives. The Commodity Credit Corporation may pay, with respect to commodities so donated, reprocessing, packaging, transporting, handling, and other charges, including the cost of overseas delivery.".

(c) There is hereby established an advisory board to be known as the Dairy Advisory Board. The Board shall be appointed by the Secretary of Agriculture and shall be composed of representatives of producers, processors, consumers and such other representatives as the Secretary determines to be appropriate. The Board shall advise the Secretary on all matters relating to the dairy industry which involve the Department of Agriculture. The Board shall from time to time review the programs administered by the Department relating to the dairy industry, including the milk price support program, and advise the Secretary as to methods to improve the effectiveness of such programs in order to assure a continuous and adequate supply of pure and wholesome milk. The Board shall meet annually, or more frequently if necessary, for the purpose of carrying out its functions. The Secretary shall provide such staff personnel, clerical assistance, service, materials, and office space as are essential to assist the Board in carrying out its duties.

II

97TH CONGRESS
2D SESSION

S. 2587

To assure the production of an adequate supply of pure and wholesome milk to meet the needs of markets of the United States, to assure a reasonable level of returns to dairy farmers and stable prices for milk and dairy products for consumers, to maintain production capacity sufficient to meet anticipated future needs, and for other purposes.

IN THE SENATE OF THE UNITED STATES

May 27 (legislative day, May 25), 1982

Mr. Boschwitz (for himself, Mr. Andrews, Mr. Boren, Mr. Zorinsky, Mr. Riegle, Mr. Melcher, Mr. Pressler, Mr. Burdick, Mr. Levin, and Mr. Randolph) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To assure the production of an adequate supply of pure and wholesome milk to meet the needs of markets of the United States, to assure a reasonable level of returns to dairy farmers and stable prices for milk and dairy products for consumers, to maintain production capacity sufficient to meet anticipated future needs, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Section 1. This Act may be cited as the "Dairy Stabilization Act of 1982".

DAIRY PRICE SUPPORT PROGRAM

SEC. 2. Section 201 of the Agriculture Act of 1949, as amended by the Agriculture and Food Act of 1981, is amended by striking out everything in subsection (c) after the first sentence and preceding the sentence which begins "Such price support shall be provided" and inserting in lieu thereof the following: "(A) Notwithstanding the foregoing, (1) Effective for the period beginning October 1, 1982, and ending September 30, 1983, the price of that portion of the national milk supply required to meet domestic commercial market needs shall be supported at $13.10 per hundredweight of milk containing 3.67 per centum milkfat; and (2) Effective for each of the fiscal years ending September 30, 1984, and September 30, 1985, the price of milk shall be supported at the percentage of parity the Secretary shall determine that $13.10 represented as of October 1, 1982. (B) The level of price support provided farmers on that portion of the national milk supply determined excess to domestic commercial market needs shall be determined by the National Dairy Board provided for herein. This level of price support shall be announced prior to October 1 of each year and may be adjusted during the fiscal year as determined necessary by the National Dairy Board. This level of price support shall be achieved through a reduction of the price paid farmers for milk by all persons making payment to farmers for milk and by farmers who market milk of their own production directly to consumers by an amount announced by the National Dairy Board. Such reduction shall be applied uniformly to all such milk. The funds represented by such reduction shall be remitted to the Commodity Credit Corporation and credited to the account of the National Dairy Board: *Provided,* That whenever the estimated portion of the national milk supply determined excess to domestic commercial market needs is less than five billion pounds (milk equivalent), the price support provided under this subsection shall be the same as that provided under subsection (A) of this section except that such price support may be reduced to the extent necessary to recover funds advanced by the Commodity Credit Corporation in accordance with subsection (B) of section 3 or losses experienced as the result of operations conducted under section 8 of this Act. (C) That portion of the national supply required to meet domestic commercial market needs shall be the estimate of marketings of milk by farmers minus the estimate of removals of milk from the market by the Commodity Credit Corporation to effectuate this price support program. That portion of the national milk supply determined excess to domestic commercial market needs shall be the estimated removals of milk from the market by the Commodity Credit Corporation to effectuate this price support program.".

CONDUCT OF THE DAIRY PRICE SUPPORT PROGRAM

SEC. 3. Price support for milk shall be provided through the purchase of milk and the products of milk by the Commodity Credit Corporation.

(A) There shall be no limitation on the volume of product purchases by the Commodity Credit Corporation.

(B) All purchases shall be made with funds available to the Commodity Credit Corporation under authorized borrowing authority approved by the Congress. To the extent that purchases of dairy products by the Commodity Credit Corporation exceed five billion pounds (milk equivalent) during any fiscal year, the Commodity Credit Corporation shall recover the cost of such purchases as well as other costs associated with such purchases and costs associated with inventory management and disposition of product related to said purchases in excess of five billion pounds (milk equivalent) from funds available pursuant to subsection (B) of section 2 and section 8. For the purposes of this Act, five billion pounds (milk equivalent) shall mean the dollar amount represented by the cost of purchasing and handling butter and nonfat dry milk produced from five billion pounds of milk of 3.67 per centum milkfat content. Operations under this Act shall not, however, be limited to the purchase of these products or to their purchase in the proportions they appear in milk: *Provided,* That if funds available for this purpose are not adequate to meet current needs, purchases of dairy products shall continue using funds otherwise available to the Commodity Credit Corporation. Such expenditure shall be deemed an advance by the Commodity Credit Corporation to the National Dairy Board which shall be liable for its repayment with interest at the same rate payable by the Commodity Credit Corporation to the United States Treasury. The National Dairy Board shall make provision for repayment of any balance outstanding at the end of any fiscal year by the end of the succeeding fiscal year. Funds for such repayment shall be provided in the manner prescribed in subsection (B) of section 2 or through sales of products under the provisions of section 8.

MARKETING REDUCTION INCENTIVE PAYMENT

SEC. 4. (a) When the price support provided for in subsection (B) of section 2 of this Act is less than the price support provided in subsection (A) of section 2, the Board shall authorize a payment to any person who can establish that his marketings of milk have been reduced from the level of marketings during the corresponding period of the prior fiscal year.

(b) Prior to approving such payment, the Board shall require evidence that such reduction in marketings has taken place. As part of such evidence, the person shall certify, in a form specified by the Board, that such reduction is a net decrease in marketings of milk and has not been offset by expansion of production in other production facilities in which the person has an interest or by transfer of partial interest in the production facility or by the taking of other such actions to qualify for payment.

(c) The payment due any person under this section shall be determined by multiplying the number of hundredweights of milk by which marketings were reduced from those for the same period a year earlier by a rate in dollars per hundredweight established by the Board which shall not be less than the rate established by the Board pursuant to section 8(C): *Provided,* That the rate of payment shall be adjusted as necessary to avoid the accumulation of excess producer funds.

(d) The Board shall provide for application for such payment at least on a quarterly basis but not more frequently than monthly: *Provided,* That if application for payment is made for any period during the year, a yearend statement of marketings must be filed by the applicant: *Provided further,* That payments made under this section during the year shall be considered preliminary settlements for reductions in marketings. In making final settlement for the year, the Board shall base such settlement on the volume of marketings for the entire fiscal year. If, based on total marketings for the year, the Board should determine that preliminary settlements have resulted in overpayment to the producer, the Board shall recover such overpayment.

(e) If a reduced level of price support as authorized in section 2(B) of this Act is in effect for consecutive years, the Board shall recognize the actions taken by persons in reducing milk production in the years preceding the current fiscal year when determining eligibility for payment in the current fiscal year: *Provided*, That in the event a person increases milk marketings to a level in excess of the marketings of said person during the fiscal year immediately preceding the first fiscal year the program was effective, no payment will be made.

(f) Eligibility for payment under this section is limited to those persons who made reductions in the marketings of milk in their capacity as producers of milk and is not transferable.

(g) In carrying out this section, the Board is authorized to utilize—

(1) marketing administrators appointed by the Secretary for the administration of Federal Milk Marketing Orders promulgated under provisions of the Agricultural Marketing Agreement Act of 1937, as amended (7 U.S.C. 601 et seq.);

(2) State and county committees established under section 8 of the Soil Conservation and Domestic Allotment Act (16 U.S.C. 590h); or

(3) administrators of State milk marketing programs.

ADJUSTMENT IN GOVERNMENT RESPONSIBILITY

SEC. 5. In the event of an increase in dairy product imports through termination, expansion, or by other means of restraints established pursuant to the provisions of section 624 of title 7, United States Code, as the result of Presidential proclamation or by other means, the five billion pound (milk equivalent) purchase responsibility of the Commodity Credit Corporation provided for in subsection (B) of section 3 shall be increased by the milk equivalent represented by such expansion. Such increase shall apply to expansions on either a solids-not-fat or milkfat-milk equivalent basis.

NATIONAL DAIRY BOARD

SEC. 6. There shall be established a National Dairy Board (hereinafter referred to as the Board) that shall consist of fifteen members plus the Secretary.

(A) The fifteen members of the Board shall be appointed by the President with the advice and consent of the Senate. Such appointments shall be made from nominations submitted by the Secretary. Such nominees shall be selected by the Secretary from recommendations submitted by organizations certified by the Secretary as eligible to make such recommendations.

(B) In making such appointments, the President shall take into account the geographical distribution of milk production volume throughout the United States.

(C) The term of Board members shall be three years and no member shall be eligible to serve more than two consecutive terms: *Provided,* That in making initial appointments to the Board, the President shall designate one-third of the appointments as one-year terms, one-third of the appointments as two-year terms, and one-third of the appointments as three-year terms.

(D) Vacancies on the Board shall be filled by the President in the same manner as initial appointments are made.

(E) The members of the Board shall serve without compensation, if not otherwise officers or employees of the United States, except that they shall, while away from their homes or regular places of business in their performance of services for the Board, be allowed travel expenses, including per diem in lieu of subsistence, in the same manner as persons employed intermittently in the Government service are allowed expenses under sections 5701 through 5707 of title 5, United States Code.

(F) The Secretary shall certify as eligible to make recommendations for Board membership, any organization that is determined to meet the eligibility criteria established by the Secretary upon the submission of a factual report which shall contain information deemed relevant and specified by the Secretary including, but not limited to the following:

(1) geographical territory covered by the organization's active membership;

(2) nature and size of the organization's active membership, including the proportion of the total number of active milk producers represented by the organization;

(3) evidence of stability and permanency of the organization;

(4) sources from which the organization's operating funds are derived; and

(5) functions of the organization.

(G) If the Secretary determines that a substantial number of milk producers are not members of, or their interests are not represented by any such eligible organization, nominations for the Board may be made from recommendations made by such milk producers in the manner authorized by the Secretary.

ORGANIZATION OF THE NATIONAL DAIRY BOARD

SEC. 7. In announcing initial appointments to the Board, the Secretary shall also announce a date for the initial meeting of said Board. At such meeting, the Board shall elect from its members a chairman, vice chairman, and secretary-treasurer. These officers shall have a term of one year. The Secretary shall not be eligible for service in these positions—

(A) The Chairman shall preside at all meetings of the Board and shall be responsible for supervision and direction of any personnel employed by the Board to carry out the directives of the Act.

(B) The Vice Chairman shall, in the absence of the Chairman, preside at meetings of the Board. In the event the office of Chairman is vacated by the death, resignation, or by disqualification of the incumbent, the Vice Chairman shall assume those duties until a successor has been duly named and qualified by the Board.

(C) The secretary-treasurer shall be responsible for maintenance of such records as may be required by the Board. In addition, the secretary-treasurer shall prepare such reports as are necessary including an annual report to the chairman of the Committee on

Agriculture, Nutrition, and Forestry of the United States Senate and the chairman of the Committee on Agriculture of the United States House of Representatives.

(D) Regular meetings of the Board shall be held on a schedule determined by the Board. Special meetings may be called by the Chairman, by the Secretary, or by a majority of the Board requesting the Chairman convene such special meeting.

(E) The Board is authorized to issue such regulations as are necessary for the conduct of activities required by this Act.

(F) The Board is authorized to employ such personnel as may be required to assist in carrying out the purposes of the Act. Such employees shall be considered employees of the Department of Agriculture, however costs of such employment shall be met from funds available to the Board pursuant to subsection (B) of section 2 and section 7 of this Act for the conduct of its activities.

DUTIES AND RESPONSIBILITIES OF THE NATIONAL DAIRY BOARD

SEC. 8. Notwithstanding any other provision of law, the Board shall have the following duties and responsibilities:

(A) Based on estimates of milk production, consumption, and Commodity Credit Corporation purchases, determine the relative proportions of milk to which the price support levels provided for in section 2 shall apply;

(B) In accordance with the determination made in subsection (A) of this section and based upon the provisions of section 3, determine the producer responsibility for dairy product purchases. Producer responsibility in any fiscal year shall be that portion of the estimated total cost of Commodity Credit Corporation dairy product purchases represented by purchases in excess of five billion pounds (milk equivalent), including other costs associated with such purchases and costs associated with inventory management and disposition of product related to said purchases in excess of five billion pounds (milk equivalent), adjusted to reflect anticipated administrative costs of the Board, estimated receipts from the sale or transfer of dairy products under operations conducted in accordance with subsection (E) of this section, estimated receipts or outlays resulting from operations undertaken pursuant to subsection (G) of this section and any balance remaining from the immediately preceding fiscal year on advances made to the Board by the Commodity Credit Corporation as provided for in section 3 of this Act;

(C) Establish a uniform rate by which the price paid farmers for milk determined to be in excess of domestic commercial market needs shall be reduced to achieve the price support provided for in subsection (B) of section 2. Such reduction shall be sufficient to meet the producer responsibility determined in subsection (B) of this section;

(D) Determine and announce, prior to October 1 of each year, the level of price support for that portion of the national milk supply determined excess to domestic commercial market needs. This level of price support shall be the difference between the level of price support provided for in subsection (A) of section 2 and the reduction determined pursuant to subsection (C) of this section;

(E) To dispose of dairy products acquired by the Commodity Credit Corporation through price support operations provided for herein. Such dispositions may include, but are not limited to—

(1) sales to the domestic commercial trade for unrestricted use: *Provided*, That in no event shall such sales be made at a price less than the higher of the current market price or 110 per

centum of the currently effective price for purchase of the product by the Commodity Credit Corporation;

(2) transfer to Federal, State, and local government agencies for use in food assistance programs. Such programs shall include the child nutrition programs of the Department of Agriculture, elderly feeding programs and others whether of an ongoing or of a temporary nature designed to meet short-term conditions. Unless otherwise provided for by law, the rate of reimbursement for commodities used in such programs shall be determined by the Board: *Provided*, That dairy products, not in excess of five billion pounds (milk equivalent) made available for child nutrition programs operated by the Food and Nutrition Service of the Department of Agriculture and similar programs including those conducted under the Older Americans Act shall be made available at the request of the Secretary without cost annually;

(3) sales to persons engaged in international commerce for the purpose of commercial export sale of said dairy products;

(4) sales and transfers of dairy products to foreign governments, agencies of foreign governments, or international agencies; and

(5) other sales or donation efforts to meet specific needs, as determined by the Board. This may include, but is not limited to, disposition of product for other than unrestricted commercial use to prevent waste, deterioration, or loss of product.

(6) The Board shall have authority to direct the reprocessing and, if necessary, repackaging of product to facilitate operations undertaken pursuant to this section.

(F) Proceeds realized from any operations undertaken pursuant to this section shall be remitted to the Commodity Credit Corporation and credited to the account of the Board.

(G) If, in the judgment of the Board, any of the operations provided for in subsection (1), (2), (3), (4), or (5) of subsection (E) of this section can be more effectively carried out through products other than those purchased by the Commodity Credit Corporation or on a basis other than through purchase by the Commodity Credit Corporation and subsequent resale or transfer, the Board shall develop and announce details of such programs.

(H) Make recommendations to the Secretary regarding details of the operation of the price-support program for milk.

(I) Establish and announce the rate of the marketing reduction incentive payment provided for in section 4.

FUNDING OF PRODUCER RESPONSIBILITY

SEC. 9. Producer responsibility for funding of program operations shall be as defined in subsection (B) of section 8.

(A) Funds required to meet such responsibility shall be derived from—

(1) the reduction in the price paid farmers and by farmers who market milk of their own production directly to consumers in order to achieve the price support provided for in subsection (B) of section 2, and

(2) proceeds from the sale or transfer of dairy products resulting from operations undertaken pursuant to the authorities contained in subsections (E) and (G) of section 8.

(B) Such funds shall be remitted to the Commodity Credit Corporation and credited to the account of the National Dairy Board.

(C) Such funds shall be available—

(1) to the Commodity Credit Corporation to recover the cost of dairy product purchases made to support the price of milk to the extent that such purchases exceed five billion pounds (milk equivalent) in any fiscal year;

(2) to the Commodity Credit Corporation to recover the other costs associated with the purchase as well as costs associated with inventory management and disposition of product related to purchases in excess of five billion pounds (milk equivalent);

(3) to cover the costs of employment of such staff as required by the Board as provided in subsection (F) of section 7;

(4) to cover costs of reimbursement of members of the Board as provided in subsection (E) of section 6;

(5) to cover other obligations of the Board arising from operations undertaken to effectuate this Act; and

(6) to cover marketing incentive payments provided for in section 4 of this Act.

DUTIES AND RESPONSIBILITIES OF THE SECRETARY OF AGRICULTURE

SEC. 10. The Secretary of Agriculture shall—

(A) serve as a member of the National Dairy Board;

(B) cooperate with the Board in the performance of its duties including providing the Board access to all pertinent economic and financial data and information necessary to the achievement of its responsibilities; and provide the Board with such facilities and support as may be determined necessary;

(C) collect from all persons who make payment to farmers for milk and from farmers who market milk of their own production directly to consumers, the funds derived from the reduction in prices paid farmers for that portion of the national milk supply determined excess to the needs of the domestic commercial market so as to achieve the level of price support provided for in subsection (B) of section 2;

(D) provide for audit and verification to determine that all funds due have been collected and properly credited;

(E) provide for the delivery from the inventories of the Commodity Credit Corporation dairy products acquired in the conduct of the price-support program for milk. Such deliveries shall be in the form and at the time and place directed by the Board; and

(F) provide for the payment of obligations incurred by the Board in carrying out its responsibilities. Such obligations shall be paid from funds available to the Board as provided in section 9 of this Act. Such payments shall be made at the direction of the Board.

ENFORCEMENT

SEC. 11. (a) The district courts of the United States are vested with jurisdiction specifically to enforce, and to prevent and restrain any person from violation, any regulation issued under this Act. Any such civil action authorized to be brought under this subsection shall be referred to the Attorney General for appropriate action: *Provided*, That nothing in this Act may be construed as requiring the Secretary to refer to the Attorney General minor violations of this Act whenever the Secretary believes that the administration and enforcement of this Act would be adequately served by suitable written notice or warning to any person committing such violation.

(b) Any person who willfully violates any provision of any regulation issued by the Secretary or the Board under this Act, or who willfully fails or refuses to remit any amounts due thereunder shall be liable to a penalty (to be assessed by the Secretary) of not more than $1,000 for each such violation which shall accrue to the United States and may be recovered in a civil suit brought by the United States.

(c) The remedies provided in subsections (A) and (B) of this section shall be in addition to, and not exclusive of, the remedies otherwise provided at law or in equity.

INVESTIGATIONS; POWER TO SUBPENA AND TAKE OATHS AND AFFIRMATIONS; AID OF COURTS

SEC. 12. The Secretary may make such investigations as the Secretary deems necessary for the effective administration of this Act or to determine whether any person subject to the provision of this Act has engaged or is engaged or is about to engage in any act or practice that constitutes or will constitute a violation of any provision of this Act or rule or regulation issued under this Act. For the purpose of such investigation, the Secretary is empowered to administer oaths and affirmations, subpena witnesses, compel their attendance, take evidence, and require the production of any books, papers, and documents that are relevant to the inquiry. Such attendance of witnesses and the production of any such records may be required from any place in the United States. In case of contumacy by, or refusal to obey a subpena to, any person, the Secretary may invoke the aid of any court of the United States within the jurisdiction of which such investigation or proceeding is carried on, or where such person resides or carries on business, in requiring the attendance and testimony of witnesses and the production of books, papers, and documents; and such court may issue an order requiring such person to appear before the Secretary, there to produce records, if so ordered, or to give testimony touching the matter under investigation. Any failure to obey such order of the court may be punished by such court as a contempt thereof. All process in any such case may be served in the judicial district whereof such person is an inhabitant or wherever such person may be found.

PROGRAM OF THE DEPARTMENT OF AGRICULTURE

SEC. 13. All operations conducted under this Act shall be considered a program or operation of the Department of Agriculture as set forth in section 624 of title 7, United States Code.

Department of Agriculture,
Washington, D.C., August 3, 1982.

Hon. Jesse Helms,
Chairman, Committee on Agriculture, Nutrition, and Forestry,
U.S. Senate, Washington, D.C.

Dear Mr. Chairman: This is in response to your request for a report on S. 2587, a bill "To assure the production of an adequate supply of pure and wholesome milk to meet the needs of markets of the United States, to assure a reasonable level of returns to dairy farmers and stable prices for milk and dairy products for consumers, to maintain production capacity sufficient to meet anticipated future needs and for other purposes."

The Department of Agriculture opposes enactment of this bill.

Section 2 of S. 2587 would amend Section 201 of the Agricultural Act of 1949 by specifying a "two-tier" price support program for fiscal years 1983, 1984, and 1985. For that portion of the national milk supply required to meet domestic commercial market needs, the support would be $13.10 per hundredweight in fiscal year 1983, and for fiscal years 1984 and 1985, the support would be the same percentage of parity as $13.10 represented as of October 1, 1982. For the excess portion of the supply, the level of support would be determined by the National Dairy Board established by this legislation.

Section 3 specifies that support for milk would be provided through the purchase of milk and milk products by the Commodity Credit Corporation (CCC). In addition, it specifies the quantity of dairy products to be purchased under the milk price support program with Government funds (five billion pounds, milk equivalent). Cost of purchases in excess of this quantity would be recovered from funds available to the National Dairy Board.

Section 4 would authorize and detail the mechanics under which an individual who reduces his marketings of milk can receive a payment in the form of a marketing reduction incentive payment.

Section 5 contains provisions for the mandatory adjustment in Government responsibility to offset increased imports.

Sections 6 through 8 provide for establishment of a National Dairy Board, and specify membership, duties, and powers of such Board, while section 9 details the producer responsibility for funding.

Sections 10 through 13 specify duties of the Secretary of Agriculture, enforcement provisions and locate this program within the Department of Agriculture.

The Department opposes replacing the current dairy price support program with an autonomous agency within USDA with an accompanying bureaucracy to administer an untried, expensive, and complex program.

This bill would establish a producer-controlled National Dairy Board within the Department. However, the Board would be completely independent of Department review or supervision since there is no provision for Executive Branch oversight. In effect, powers traditionally reserved to governmental authorities would be delegated under this bill to industry representatives—dairy farmers—who would not be charged to serve the public interest.

Operation of the Board would create an intolerable and unacceptable interference with the Secretary's authority and responsibilities to manage the Department of Agriculture and operate its programs. Under the bill, the Board would have extensive authority to use Department personnel and facilities. Establishment of a dairy advisory board to work with and advise the Secretary of Agriculture on dairy matters would be a more acceptable alternative.

Due to the elaborate and complex nature of the program, putting it into operation would require a long startup period. It, therefore, would be of little value in dealing with the current overproduction problem. Once in operation, it would create extensive administrative and compliance burdens—particularly on handlers—which could be quite costly. Milk handlers would be charged with maintaining records on producers from which they purchase milk, collecting the required assessments and paying them to the Commodity Credit Corporation. In addition, producers qualifying for marketing reduction incentive payments by reducing their production would have to maintain and submit elaborate records. Furthermore, this bill makes no provision for hardships, natural disaster or other extenuating circumstances that could adversely affect a dairy farmer's production, nor does it make provision for new producers with no production history.

Providing a Dairy Board with the authority to dispose of CCC stocks through commercial export sales could result in the U.S. violating its international commitments under the General Agreement on Tariffs and Trade (GATT). Since U.S. dairy prices are well above world prices, commercial exports would effectively (though indirectly) be subsidized through the CCC's support purchases. If the Dairy Board were to undercut the price of other dairy producing countries so that we gained more than an equitable share of world markets through subsidies, the United States would be in violation of its GATT commitments. Under the International Dairy Agreement of the GATT, to which the United States is a signatory, minimum export prices for dairy products have been established. There is no assurance that a Dairy Board as proposed would observe these international commitments.

The Department is concerned that indiscriminate sales of dairy products abroad could ultimately result in some form of retaliation by dairy exporting nations—either a subsidies war or other trade restrictive measures. the U.S. is a major exporter of agricultural commodities. In 1981, the United States exported $43.3 billion in agricultural goods and imported $16.8 billion for a trade surplus of $26.5 billion. Any disruption of that favorable surplus would be most unfortunate.

There is nothing in this bill to prevent producers from marketing more milk than their bases specify. If they do, however, an assessment would be levied against such producers for their over-base marketings. USDA analysis indicates that the support levels required in this bill would provide sufficient economic incentive to encourage excessive production and more than compensate for the resulting assessments. While producers would (as a result of the assessments) receive lower prices for a portion of their milk, consumers would not benefit from lower prices. Consequently, the excess marketings still would be purchased by CCC (with funds from producer assessments) and Government stocks of dairy products would continue to increase.

Budget outlays for the dairy program in the fiscal year 1982, under current legislation, are estimated to total $1.9 billion. Because of the economic incentive provided by the level of support required in S. 2587, outlays under the bill during the five years—FY 1983 through FY 1987—would total $6.1 billion, of which $4.2 billion would be paid with Government funds. These CCC outlays do not include any additional administrative costs of operating either program. Total outlays under this bill over the five-year program would be about $2.7 billion lower than the corresponding cost under current legislation. More significantly, however, over the same five years, Government outlays under S. 2587 would be an estimated $3.9 billion more than under the program outlined by the Secretary of Agriculture on May 5, 1982.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

John R. Block,
Secretary.

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